ANNUAL REPORT
2021

PEOPLE'S BANK

MULTIFACETED BRILLIANCE

"People's Bank celebrated its 60th year of operations on 1 July 2021. The international icon for a 60th anniversary is the diamond. Aside from their unique crystal structure. what gives diamonds their brilliance and sparkle are the facets cut into each as they are processed.
Over six decades the Bank has meticulously crafted a financial institution that, in its many faceted structure and form, serves an entire nation and every customer segment from every socio-economic demography.
This multifaceted brilliance has rightly placed People's Bank at the pinnacle of the banking firmament in Sri Lanka"

PEOPLE'S BANK

ABOUT THIS REPORT

WELCOME TO OUR SEVENTH INTEGRATED ANNUAL REPORT

This Report aims to provide a transparent assessment of our performance in line with our strategy, value creation for our stakeholders, operating context, governance and operations of the Bank during the 12-month period ending 31 December 2021. Continuing our pursuit of excellence in corporate reporting, we aim to provide an accurate, balanced review of our performance in a concise but comprehensive manner. This Report builds on our previous Integrated Annual Report published on 31 December 2020 and is consistent with our annual reporting cycle for both financial and sustainability reporting. In particular, this Report highlights the efforts we have made to support our stakeholders - our customers, our employees, the Government, and communities across the country - as we navigate a second year of the COVID-19 pandemic and the current context.

HOW TO READ THIS REPORT

The Report begins with an overview about the Bank followed by the Letter from the Chairman and the Chief Executive Officer/General Manager's Review. The Report then features special sections on how we are supporting our stakeholders and a reflection on our 60th anniversary; these sections are meant to illustrate how the Bank, throughout its existence, has sought to fulfil its mandate promised by its very name - serving the people of Sri Lanka. The next section, "Driving value creation", sets out how we have engaged stakeholders to identify, prioritise and manage environmental, social and governance themes, how we manage our impacts and material issues, and how our strategy facilitates value creation for our stakeholders in the short, medium and, long term. This year's report, in particular, outlines our new strategic direction and our outlook over the medium term. "Our Impact" and "Performance Review" together provide a thorough management discussion and analysis through a multi-capital lens and a business segment lens, respectively. These sections are followed by an overview of our governance structure, how we embed our policies on ethics and integrity and the manner in which we manage our risks.

The financial reports and supplementary reports sections include the Audited Financial Statements with notes showcasing the financial performance of the Bank and the Group for the financial year ended 31 December 2021 and the financial position at 31 December 2021 along with related supplementary information.

GRI 102-51

Our most recent integrated report for the year ended 31 December 2020, as well as the reports for the past ten years, are available on our website: https://www.peoplesbank.lk

CAPITALS

The six capitals as defined by the International Integrated Reporting Framework are as follows:

- Financial capital
- Manufactured capital
- Intellectual capital
- Human capital
- Social and relationship capital
- Natural capital

STRATEGY

A review of our strategic performance is given under "Our Next Phase" on pages 61 to 65.

Our key strategic objectives are:

- Delivering exceptional client experiences
- Maintaining a steady growth momentum and building resilience
- Achieving operational excellence
- Promoting ethics and integrity

GRI 102-45, 102-46, 102-48, 102-49, 102-50, 102-52

SCOPE AND BOUNDARY

The Report covers the operations of People's Bank (hereinafter referred to as "the Bank") and its subsidiaries People's Leasing & Finance PLC and People's Travels (Pvt.) Ltd., (hereinafter collectively referred to as "the Group").

The key financial aspects are discussed in the context of the Bank as well as the Group whilst non-financial aspects are discussed in the context of the Bank unless stated otherwise.

The scope of the People's Bank Annual Report 2021 covers the 12-month period from 1 January 2021 to 31 December 2021 and is consistent with the annual reporting cycle for financial and sustainability reporting.

During the year under review, there were no significant changes from the previous reporting period in terms of both scope and aspect boundaries, nor were there any restatements as compared to the Annual Report issued in the previous year.

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MATERIALITY

To define the content to be presented in this Report, we have applied the principle of materiality. Accordingly, the Report captures the opportunities and challenges that materially impact the Bank and its ability to be a sustainable business that consistently delivers value to its stakeholders.

GRI 102-12, 102-54

REPORTING FRAMEWORKS

In preparing this Report we drew on concepts, principles, and guidance from:

- The International Integrated Reporting Council (IIRC) Framework
- Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines
- The Institute of Chartered Accountants of Sri Lanka
- The United Nations Sustainable Development Goals (SDGs)

GRI 102-11

PRECAUTIONARY PRINCIPLE

We apply the precautionary principle with regard to our social and environmental sustainability. We understand that our operations cause reciprocal impacts on society and the environment. As a bank, even though our operations do not directly create a negative impact on the society and the environment, we have taken necessary measures to alleviate such risks. These are detailed under Community Capital and Natural Capital which can be found on pages 131 and 137 respectively.

GRI 102-56

ASSURANCE

We value the accuracy and reliability of all information and data contained in this Report, both financial and non-financial by adopting a combined assurance model, we have assessed and assured various aspects of our business operations.

GRI 102-12, 102-56

Aspect	Internal assurance	External assurance
Financial Reporting	Board of Directors, Internal Audit	The Auditor General's Department
Sustainability Indicators	Board of Directors, Internal Audit, Business Heads	Messrs. KPMG
Corporate Governance	Board of Directors, Internal Audit	The Auditor General's Department
Internal Control	Board of Directors, Internal Audit	The Auditor General's Department

QUALITY ASSURANCE

Whilst making every effort to provide credible information, we have used visual elements such as graphs, tables, and infography to enhance the clarity and comparability of the information presented. Assurance and consistency of the information have been facilitated through in-built internal controls that enable traceability and verifiability. The readability and brevity of the Report has been enhanced by the aid of visual elements. All direct and indirect material impacts of the Bank has been included to assure the completeness of the Report. Finally, every effort has been taken to present a balanced review of all relevant material information and external assurance has been obtained to assure the credibility and reliability thereof.

FORWARD-LOOKING STATEMENTS

There are certain statements in this report which are forward-looking that are based on assumptions made by and information currently available. These forward-looking statements are, by nature, subject to significant risks and uncertainties. These forward-looking statements include, amongst other, statements relating to the Bank's business prospects, future developments, trends and conditions in the industry and geographical markets in which the Bank operates, its strategies, plans, objectives and goals, its ability to control costs, statements relating to prices, volumes, operations, margins, overall market trends, risk management and exchange rates. People's Bank does not in any shape or form give any assurance on the probabilities of achieving these future events due to the risks and inherent uncertainties relating to the circumstances on which these events depend on, especially those macroeconomic.

GRI 102-53

QUERIES AND FEEDBACK

We welcome your comments or questions on this Report. You may contact:

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ABOUT PEOPLE'S BANK

"Industry's largest financial services provider in terms of customer base and access"

PRIDE OF THE NATION

With the industry's largest branch network, and stemming therefrom, close to 14.5 million customers across the country, People's Bank is Sri Lanka's largest financial services provider as measured by its customer base and island wide geographical reach. In addition, the Institution benefit from a strong team of 7,568 Banking professionals powering our Bank and its entire branch network; maintaining benchmark levels of professionalism, ethics and compliance across all aspects of its business. Established under the People's Bank Act No. 29 of 1961, the Bank has played an important role in the country's economic progress and access to finance over the past six decades, and is one of the four Domestically Systemically Important Banks (D-SIB) in Sri Lanka; as determined by the Central Bank of Sri Lanka.

PROFILE SNAPSHOT

FINANCIAL PERFORMANCE

PROFIT AFTER TAX
LKR 23.7 Bn.
2020: LKR 14.2 Bn.
↗ 63.7%

TOTAL OPERATING INCOME
LKR 91.8 Bn.
2020: LKR 71.7 Bn.
↗ 28.0%

TOTAL OTHER OPERATING COSTS (EXCLUDING DEPRECIATION)
LKR 12.2 Bn.
2020: LKR 11.2 Bn.
↗ 9.7%

TOTAL ASSETS
LKR 2,647.6 Bn.
2020: LKR 2,230.1 Bn.
↗ 18.7%

TOTAL NET LOANS
LKR 1,835.7 Bn.
2020: LKR 1,635.6 Bn.
↗ 12.2%

TOTAL DEPOSITS
LKR 2,071 Bn.
2020: LKR 1,835.1 Bn.
↗ 12.9%

"Recipient of numerous international awards as the **Country's Best Digital Bank**"

DIGITAL LEADERSHIP

Our competitive edge remains our farsighted investments and early adoption in digital infrastructure and capabilities, having played a pioneering role in the direction of the digital revolution of Sri Lanka's banking sector. People's Bank continued to introduce ground-breaking digital initiatives to the local market, ensuring customers were afforded the ease, agility, efficiency and convenience necessitated in today's banking landscape in order to meet dynamic market expectations.

DIGITAL CUSTOMER BASE
1.7 million
2020: 1.1 million
↗ 54.0%

MOBILE BANKING LEADER
1 million + registrations
2020: 0.5 million
↗ 100.0%
The country's most downloaded Banking app

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"Accounted for **15.6% of Banking sector assets** on a standalone basis at 31 December 2021"

MARKET POSITION

At 31 December 2021, People's Bank accounted for 15.6% of Banking sector assets on a standalone basis (31 December 2020 - 15.2%). It is the country's second largest financial services provider in terms of assets loans and deposits.

"At 31 December 2021 - **Total capital adequacy levels** amongst the **highest** in the industry"

STRONG SOLVENCY

At 31 December 2021, the Bank's Tier 1 and Total Capital Adequacy Ratio ("Total CAR") stood at 12.6% and 17.8%, respectively - either of which not only the highest in the Institutions' history but also amongst the highest in the industry from a Total CAR perspective. This demonstrates the Bank's financial soundness and its ability to withstand challenges.

TIER 1 CAPITAL ADEQUACY RATIO

12.6%

↗ up from 9.5% in 2020

TOTAL CAPITAL ADEQUACY RATIO

17.8%

↗ up from 15.5% in 2020

"During 2020 and 2021, despite the many extra-ordinary challenges, People's Bank **sustained its national long term rating**"

CREDIT RATING

During 2020 and 2021, People's Bank successfully sustained its National Long-Term Rating of AA-(lka) by Fitch Ratings Lanka Ltd. with a Stable Outlook. This was supported by its quasi-sovereign status, full state ownership, and financial soundness.

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OUR GROUP

The People's Bank Group comprises of the People's Bank and its subsidiaries namely, People's Leasing & Finance PLC and People's Travels (Pvt) Ltd. which is effectively owns 75.0% and 99.0%, respectively. People's Bank is the largest contributor to the Group, accounting for over 90.0% of the total assets and over 80.0% of consolidated profit after tax.

PEOPLE'S BANK

Year of Incorporation
1961

Customer Segments
- Individuals
- Micro Enterprises
- Small and Medium scale Businesses
- Corporate, Government and State-Owned Enterprises

Main Products and Services
- Retail Banking
- Enterprise Banking
- Corporate Banking
- International Banking

Performance Highlights
- Assets: LKR 2,647.6 Bn.
- Profit after tax: LKR 23.7 Bn.

Number of Branches
742

Staff Strength
7,568

PEOPLE'S LEASING & FINANCE PLC
(People's Bank's ownership: 75%)

Year of Incorporation
1995

Customer Segments
- Individuals
- Micro Enterprises
- Small and Medium scale Businesses

Main Products and Services
- Leasing and Hire Purchases
- Microfinance
- Deposits
- Loans

Performance Highlights
- Assets: LKR 204.2 Bn.
- Profit after tax: LKR 6.1 Bn.

Number of Branches
112

Staff Strength
3,208

PEOPLE'S TRAVELS (PVT) LTD
(People's Bank's ownership: 99%)

Year of Incorporation
1993

Customer Segments
- Individuals
- Micro Enterprises
- Small and Medium scale Businesses

Main Products and Services
- Inbound Travel
- Outbound Travel
- Destination Management

Performance Highlights
- Assets: LKR 88.4 Bn.
- Loss after tax: LKR 0.01 Mn.

Number of Branches
3

Staff Strength
22

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VISION, MISSION, AND VALUES

OUR VISION

"To be recognised as Sri Lanka's undisputed market leader for financial services"

OUR MISSION

"We are in the business of **providing financial services that contribute to the quality of life, and enterprise development,** via affordable, accessible, and efficiently delivered solutions

We empower and develop our human resources, so that they will care for and protect our customers

We contribute to national economic development, while being competitively profitable

We believe in giving back to the society we operate in while being sustainable in our business practices"

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OUR JOURNEY - MILESTONES

1987

Our Headquarters Branch became the Bank's first fully-automated branch. A special loan scheme for rural electrification was implemented in collaboration with the CEB.

1989

The Bank participated in a loan scheme sponsored by the Ministry of Labour to provide housing against EPF balances. A scheme was launched in association with the Sri Lanka Foreign Employment Bureau to provide loans for job seekers abroad. The Bank participated in a loan scheme launched by REPIA to provide credit to those affected by civil unrest in 1983. A *Janasaviya* associated loan scheme was introduced during the year. The Bank also commenced issuing Negotiable Savings Certificates during the year.

1986

The process of computerisation began at our Head Office and selected city branches and a Black Light System was introduced. Customer turnaround time was thereby significantly reduced.

1984

The People's Merchant Bank, a subsidiary of the Bank, was established. Our branch at Slave Island was merged with the International Division and the Fort Foreign Branch.

1982

The 300th branch of the Bank opened at Ingiriya. The total number of employees reached 10,000.

1981

Our branch network increased to 290. The Extended Minors' Savings Scheme was launched.

1971

The Bank's 100th branch was opened at Marandagahamula.

1973

A comprehensive rural credit scheme was launched to provide both production and consumption credit facilities.

The Bank initiated the *"Ganu-Denu"* practice, identifying itself with the traditions of the Sinhala and Tamil New Year and encouraging customers to transact with the Bank at the auspicious time.

1975

An aggressive branch expansion programme brought our total branch count to 158.

1977

Our 200th branch opened at Kollupitiya. The Head Office was relocated to a building in Fort. The total number of employees reached 5,000. The first fisheries bank was opened at Koralawella.

1970

The *"Athamaru"* loan scheme was introduced to finance economic activities of the informal sector. The Investment Savings Scheme, a credit linked savings scheme was launched to attract regular savers.

1967

The Bank commenced a new Agriculture Credit Scheme becoming the pioneer lender to the small farm sector.

1965

Some departments of the Bank were relocated to the Government Clerical Service Union (GCSU) building in Sir Chittampalam A. Gardiner Mawatha, Colombo 2. The total number of branches increased to 48, including new branches in Horana, Kekirawa, Padaviya, Mannar, Embilipitiya, Kahatagasdigiliya, Ragala, and Talawakelle.

1961

People's Bank was inaugurated on 1 July 1961. The first branch was opened at Duke Street, Colombo. During the year, eight more branches were opened in Polonnaruwa, Hingurakgoda, Hambantota, Anuradhapura, Puttalam, Matale, and Kandy in addition to the Foreign Branch in Colombo. The total number of employees stood at 169.

1962

The Head Office was relocated to Ratnam's Building in Union Place, Colombo 2 and 17 more branches were opened.

1963

The Bank commenced its pawning services.

1964

The Co-operative Rural Banking Scheme was inaugurated.

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1990

An Endowment Savings Deposit Scheme was introduced. The People's Visa Card was introduced in association with Visa International and 24 branches were fully-computerised.

1991

The first ATM was installed at our Headquarters Branch.

1992

The Bank supported the Government's 200 Garment Factory Programme. "People's Automated Banking System" (PABS) a banking application developed in-house, commenced live operations.

1993

Three hundred and thirty bank branches were operating throughout the country and 35 main branches were fully automated. *"Vanitha Vasana",* a savings scheme for women was introduced.

1994

Eight new ATMs were installed and 160 branches were computerised under the automation programme.

1995

"Gurusetha", a new deposit mobilisation and loan scheme catering to Government teachers was launched with the co-operation of the Ministry of Education.

1996

"Suwa Sevana", a credit package for Government sector health personnel was launched. *"Sisu Udana",* a new deposit scheme for schoolchildren was introduced. The Bank participated in two ADB-funded credit schemes – the Tea Small Holdings Development Project and the Perennial Crops Development Project. The Bank's fully owned subsidiaries, People's Leasing Co. Ltd. and People's Travels (Pvt) Ltd., commenced operations. Zonal offices were opened to strengthen decentralised administration and to facilitate better customer service.

1997

The *"Surathura"* Loan Scheme was launched to assist self-employment projects. The Bank extended its credit facilities to small and medium scale enterprises and industries under the NDB-funded Small and Medium Enterprises Assistance Project (SMEAP).

1998

The total number of ATMs increased to 36, serving over 125,000 PET cardholders. One hundred and seventy-five branches were fully-automated and the number of pawning centres increased to 188. A special credit cum deposit scheme known as *"Videshika"* was introduced in collaboration with the Sri Lanka Foreign Employment Bureau to assist migrant workers.

1999

The Bank launched *"Isuru Udana",* a deposit scheme that encourages parents and guardians to save for the benefit of their young charges.

2000

The *"Jana Jaya",* savings cum loan scheme was launched. The newly introduced *"Jaya Sri"* draw offered attractive prizes for depositors. The ATM network expanded to 74 machines throughout the country. The Central ATM Switch was introduced to connect the PABS branches and the ATMs.

2001

The Bank's Corporate Management team was strengthened by the recruitment of certain heads of divisions from the private banking sector. Restructuring of the Bank was initiated through the launch of a Strategic Plan. The total number of ATM machines grew to 90.

2002

The number of PABS automated branches increased to 218 and 119 branches were connected to the Central ATM Switch. A Treasury automation package was implemented.

2003

The 11th CEO/General Manager of the Bank, Mr Asoka de Silva assumed duties on 1 February 2003. The Young Executive Saver's (YES) Account was launched. The Bank signed up with Silver Lake System SDV BUD Malaysia to install a state-of-the-art core banking package and trade services solutions which will initially be operational in 60 selected branches including Head Office.

2004

The second phase of the restructuring plan for 2004-2008 launched and approved by the Government of Sri Lanka was based on the recapitalisation support of ADB. The Bank obtained the first ever public rating of BBB+ from Fitch Ratings Lanka. The core banking project was implemented successfully.

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2012

The total branch network reached 728, whilst ATM locations increased to 420. The Bank obtained an upgraded rating of AA + (stable) from Fitch Ratings Lanka Ltd. The Bank's total assets, total deposits and total loans and receivables surpassed LKR 873 Bn., LKR 683 Bn. and LKR 660 Bn. respectively. The Bank's 2011 Annual Report won one Grand Award and three Gold Awards in the National Category at the 2012 International ARC Awards.

2013

23 SME centres were established across the island. Surpassed one million cards milestone with access to over 30 million Visa accredited merchants globally. Corporate customers were provided with an on line real time payment facility for EPF, ETF and Customs Duty Payments. People's Bank became the first bank to be connected to the National Common ATM Switch. ATM locations increased to 460 with the branch network expanding to 735. Debentures amounting to LKR 5 Bn. were issued at the Bank's fourth Debenture issue.

2011

The Bank celebrated the Golden Jubilee on 1 July 2011. Total branch network reached 714 whilst ATM locations increased to 382. Fitch Ratings upgraded the rating to AA (stable). The Bank's total assets, total deposits and total loans and receivables surpassed LKR 663 Bn., LKR 539 Bn. and LKR 478 Bn. respectively. Achieved the highest recorded profit before tax of LKR 15.3 Bn. and a profit after tax of LKR 10.2 Bn. People's Bank won the SLIM-Nielsen People's Award for the Most Popular Bank in the Sri Lankan Banking and Financial Services Sector, Service Brand of the Year, and the Bronze Award for the Service Category at the SLIM Brand Excellence Awards 2011.

2009

The Bank issued its second Debenture for LKR 2.5 Bn. 214 branches and 236 service centres were connected online. The Bank strategically placed over 300 ATMs island-wide. Total deposits reached LKR 400 Bn. Achieved the highest recorded profit before tax of LKR 6.1 Bn. For the first time, received the SAFA (South Asian Federation of Accountants) Award for the 2008 Annual Report.

2010

Branch network and service centres expanded to 679. ATMs increased to 330. People's International VISA Debit Card was launched. The Bank obtained AA- from Fitch Ratings Lanka Ltd. and AAA from Ram Ratings. Total deposits surpassed LKR 462 Bn. and recorded the highest profit before tax of LKR 8.7 Bn. The People's Bank Annual Report won two Gold Awards at the ARC Awards held in New York. The Bank received the SAFA (South Asian Federation of Accountants) Award, for the 1st Place in the Public Sector Category, for the 2009 Annual Report.

2008

The Government of Sri Lanka released the fourth capital tranche of LKR 1.5 Bn. The Bank reached the Capital Adequacy Level of 10.5% by the end of the year and conducted its first Debenture issue of LKR 2.5 Bn. Introduced "People's e-remittance", a web-based remittance product supported by latest technology to remit money from overseas within minutes. Two new foreign currency deposit products were launched, viz., *"Doo Daru Ethera Isura"* and "Special Foreign Investment Deposit Account" (SFIDA).

2007

The rating level of A - from Fitch Ratings was maintained during the year. The Government of Sri Lanka injected the third capital tranche of LKR 1.5 Bn. into People's Bank. The Bank won the People's Award for the Banking and Financial Services Brand of the Year for the second consecutive year. The Bank surpassed the LKR 300 Bn. mark in total deposits.

2005

The Bank received LKR 2 Bn. as the first tranche of Equity Capital Investment in the Bank by the Government of Sri Lanka in keeping with the agreement signed between the Government, ADB and People's Bank. The core banking project was further extended across the branch network. The Bank was also a major intermediary in bringing Government-granted financial assistance for rebuilding, after the December 2004 tsunami.

2006

The Bank obtained an A-rating from Fitch Ratings Lanka Ltd., indicating progress from its earlier rating level. People's Bank was awarded the POP Award for 2006 in the banking and financial services sector by the Sri Lanka Institute of Marketing. The second tranche of capital of LKR 1 Bn. was received from the Government of Sri Lanka.

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2014

The Bank's asset base crossed one trillion rupees, as the second largest bank in the industry. Bank garnered the triple accolades of "Bank of the Year 2014" at the European Global Banking and Finance Award-Sri Lanka 2014 as well as "Best Banking Group Sri Lanka" and "Most Sustainable Bank Sri Lanka" at the World Finance Banking Awards 2014.

2015

The Bank commenced an ambitious digitisation initiative. The ATM network was upgraded to an enterprise strength hardware platform. Investments were also made in upgrading the Core Banking System, data warehousing capabilities and POS infrastructure. The Bank launched a Green Banking Concept in demonstrating its sustainability commitments. Successfully rolled out to the Bank's Strategic Plan for 2016-2020.

2016

The Group achieved the rupees one trillion milestones in both deposits and advances during the year, the only financial services group to achieve two trillion rupee feats in a single year. The Bank launched self-banking centres comprising cash deposit machines (CDM), ATMs and kiosks in seven locations in Colombo and launched a new logo to reflect the Bank's evolution.

2017

The consolidated contribution towards national economic development over the last ten years surpassed the LKR 150.0 Bn. The Bank received a new capital infusion of LKR 5.0 Bn. Opened Sri Lanka's first fully-digitalised branch in Colombo and received the prestigious ISO/IEC 27001:2013 quality certification for Information Security Management first for any State bank in the Nation. The Bank was conferred the exclusive "People's Service Brand of the Year" and "People's Banking Service Provider of the Year" for the 11th consecutive year.

2018

Launched six alternative digital channels. People's Wave became the most downloaded finance app in Sri Lanka. Was awarded the "People's Banking Service Provider of the Year" for the 12th consecutive year and garnered many recognitions and accolades including being ranked amongst the Top 1000 Banks in the World, adjudged the "Best Branch Digitisation Initiative Programme Award" in Asia Pacific Region and recognised as "The Best Bank in Sri Lanka."

2019

The Bank raised LKR 10.0 Bn. via debenture issue post People's Bank (Amendment) Bill passed by the Parliament. SBUs reached 239 - a feat achieved in just three years. People's Wave app became one of the most downloaded finance apps in Sri Lanka. The Bank signed the largest ever and the longest tenor bilateral funding facility secured by any commercial bank in Sri Lanka to date.

2020

The Bank's operates the largest digital footprint in Sri Lanka, and processed over LKR 1.0 Tn. in transactions via its digital channels. Following the COVID-19 pandemic, the Bank extended unparalleled support to the Nation, customers and the general public. People's Bank successfully raised LKR 20.0 Bn. Tier II Debentures which is the highest-ever by the industry to-date. Was the only entity amongst the Top 3 and only state bank to have a positive incline in brand value.

2021

- The Bank celebrated its 60th anniversary and with the new motto, **"Pride of the Nation".**
- **"People's Wave" has become the country's most downloaded banking app** with over one million active users.
- Taking innovation to the next level, **the Bank introduced the "People's Pay" Wallet app.**
- **"Best Digital Bank" and "Best Retail Bank in Sri Lanka"** by the Asian Banker Excellence in Retail Financial Services International Awards 2021.
- **Top 10 Women Friendly Workplaces** in Sri Lanka at the first ever Women Friendly Workplace Awards (WFW) in 2021.
- **SLIM Nielsen People's Award 2021 for being the Service Provider of the year,** and the "Best Domestic Bank in Sri Lanka".
- **"Best Digital Bank in Sri Lanka"** at the World Finance and International Business Magazine Awards.

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GRI 102-7

HIGHLIGHTS

	Bank			Group		
	2021	2020	Change %	2021	2020	Change %
Operating performance (LKR Bn.)						
Interest income	197.3	179.7	9.8	222.4	207.0	7.4
Net interest income	82.5	60.9	35.3	96.9	74.4	30.2
Gross income	207.2	191.0	8.5	236.8	223.9	5.8
Operating profit before VAT and tax	37.2	25.1	48.5	45.7	29.3	55.9
Profit before tax	30.4	21.2	43.2	37.2	24.6	51.1
Income tax	6.7	7.1	-5.5	9.2	8.6	7.0
Profit after tax	23.7	14.2	67.3	28.1	16.1	74.6
Dividends paid	2.2	3.0	-27.3	2.3	3.1	-25.8
Retained profit after dividends	21.5	11.2	93.0	25.7	13.0	97.7
Financial position (LKR Bn.)						
Total assets	2,647.6	2,230.1	18.7	2,832.6	2,400.6	18.0
Gross loans and receivables	1,937.0	1,723.5	12.4	2,103.6	1,876.2	12.1
Total deposits	2,071.5	1,835.1	12.9	2,168.7	1,935.2	12.1
Shareholders' funds	136.1	102.0	33.4	177.6	139.1	27.7
Performance ratios (%)						
Return on average assets (before tax)	1.3	1.0		1.4	1.1	
Return on equity (after tax)	19.9	14.3		17.7	11.9	
Interest margin	3.4	2.9		3.7	3.3	
Cost to income ratio	51.1	54.3		53.3	53.5	
Loans to deposits ratio	93.5	93.9		97.0	97.0	
Assets quality ratios (%)						
Gross non-performing loans ratio	3.2	3.3		3.6	3 .9	
Impaired loans (stage 3) ratio	4.0	3.5		4.7	4.2	
Impairment (stage 3) to stage 3 loans ratio	50.2	54.7		46.9	50.8	
Statutory liquid assets ratio (%) (min. requirement – 20%)						
Domestic banking unit	23.5	25.6				
Off-shore banking unit	25.9	60.5				
Liquidity coverage ratio (%) (min. requirement – 2021 – 100% , 2020 – 90%)						
Liquidity coverage ratio – rupee	155.8	166.8				
Liquidity coverage ratio – all currency	105.7	111.6				
Regulatory capital ratios (%)						
Common equity Tier 1 capital (min. requirement – 7.0%)	12.0	9.5		13.0	10.7	
Tier 1 capital (min. requirement – 8.5%)	12.6	9.5		13.4	10.7	
Total capital (min. requirement – 12.5%)	17.8	15.5		17.9	15.6	
Shareholder ratios (LKR)						
Earnings per share	23,720	14,175	67.3	26,351	15,230	73.0

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Celebrating 60 years of empowering the Nation

People's Bank completed 60 years of service in 2021, marking a grand milestone in the remarkable journey of becoming the **"Pride of the Nation"**

Brand value: LKR 44.75 Bn. Rating: AAA-

Amongst Top 10 Most Admired Companies in Sri Lanka in 2021 by CIMA, ICCSL and the Daily FT

CUSTOMERS

	2021	2020
Average monthly "People's Wave" App downloads	41,000	30,000
Number of customers digitally on-boarded (Mn.)	1.7	1.1
Digital deposits balance (LKR Bn.)	271.8	172.8
Average monthly transactions conducted via "People's Wave" app (Mn.)	1.1	0.8

EMPLOYEES

	2021	2020
Total number of employees	7,568	7,692
Retention rate (%)	98.2	98.1
Female employees (%)	61.3	61.3
Promotions	99	16
Average training hours per employee	14.8	12.5
Employees outside Western Province	4,560	4,625
Employees with over 10 years of service	5,029	4,920

NATIONAL CONTRIBUTION

	2021	2020
Total value creation for Government (LKR Bn.)	16.3	14.4
Customer touchpoints outside Western Province	1,405	1,381

BUSINESS PARTNERS

	2021	2020
Number of registered suppliers	258	242
Value created for local suppliers (LKR Bn.)	11.7	10.3

COMMUNITY

	2021	2020
Value of community-based loans granted (LKR Mn.)	16,545	22,967
Number of community-based loans granted (LKR Mn.)	32,260	37,064
Investment in CSR initiatives (LKR Mn.)	12.7	28.7

ENVIRONMENT

	2021	2020
Renewable energy consumption (GJ)	5,689.4	6,236.6
Energy intensity per employee (GJ)	7.64	9.52
Non-renewable energy consumption (GJ)	3,933.5	5,979.2
Indirect savings from electricity (kWh)	152,000	79,970

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SUPPORTING OUR STAKEHOLDERS

"Our stakeholders comprise of individuals of diverse socio economic and demographic profiles and Institutions of varying nature, scale and scope. They all form a pivotal part of our business and are central in the formulation of our strategies and in the ultimate operationalisation of our thereof"

The COVID-19 pandemic brought about lockdowns, border closures and human movement control both locally and globally in a manner previously unseen. The complete halt in economic activity naturally meant adverse consequences on the lives and livelihoods of our individual customers and liquidity and constraints for our corporate and institutional customers. All our four broad stakeholder groups, our Customers, our Community, our Employees and the Government of Sri Lanka, were affected. No one was immune. In this context, supporting our stakeholders in their time of need was our national calling to which we responded with great honour, pride, dignity and exemplary commitment and delivery.

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CUSTOMERS

As the Bank of the People, our foremost responsibility is to our customers. Serving them and supporting them is our duty as a Financial Services Provider. During the twenty-four-month pandemic stressed period ended 31 December 2021 - the Bank undertook the following for the benefit of its customers:

- Ensure at least 70% of its branches and service centres remained open even during the height of the lockdown
- Be the first to roll out the Central Bank of Sri Lanka relief scheme for the benefit of all its affected customers. Through this, the Bank was able to positively help over 400,000 of individual borrowers and over 21,000 businesses - most of whom were Small and Medium Scale Enterprises. This was the single largest relief extended by any Financial Services Provider in the first instance
- From a leasing perspective, via its subsidiary People's Leasing & Finance PLC, the Bank extended relief to close to 55,000 customers which included three-wheel owners, bus operators and other commercial passenger transport service providers. This too was the largest so extended by any from a Leasing Services perspective
- Ensure all its digital channels were functional on a 24x7, 365-day basis with over 99.0% up time. This included its ATM, CDM and Kiosk network, its mobile and internet banking platforms and its POS and other ancillary touch points. Objective was to ensure customers Banking access was unhindered and can be undertaken at any time and from anywhere
- Dispatch mobile banking units to over 1,000 remote most parts in the country. Objective was to enable Banking access to those with least mobility due to the lockdown
- Launch and enhance its digital channels with well trained staff to manage customer requests across its multiple new touchpoints. During both 2020 and 2021, our digital banking innovations proved massively popular and effective in meeting the needs of our stakeholders.

COMMUNITY

We recognise that the wider community is an integral part of our market and our business. We are very well aware that this community is made up of diverse expectations and thereby, we have made it our policy to ensure financial inclusivity for the benefit of all our customers. In this connection, the Bank undertook the following during both 2020 and 2021:

- With the objective of uplifting and encouraging young graduates and entrepreneurs, launch the "People's SPARK" Entrepreneurship Development Programme
- For the benefit of students of universities, institutes and other vocational training colleges - introduce a laptop scheme
- For medical students at state universities, offer personal loan facilities at highly concessionary rates of interest

- For the benefit of both students and educators, formalise multiple agreements and memorandums of understanding with various organisations, professional associations at attractive rates of interest
- To encourage young professionals to invest in real estate, and play our role uplift the sector, introduce the People's Home Loan Scheme - a special scheme with longer tenor options at concessionary rates of interest
- In recognition of the role of women in the country's economic development, and its further potential, extend financial facilities close to LKR 533.5 Mn. during the said period. With over 60% of its own workforce comprising of women, People's Bank prides itself in its endeavours to ensure women empowerment
- To support the agricultural sector, a sector very close to its heart, the Bank introduced a wide variety of loan schemes. This included, amongst other, the including low interest Small Holder Agri-Business Partnership (SAP) scheme with an initial allocation of LKR 1.0 Bn. and a target to uplift the livelihoods of at least 5,000 farmers. Efforts in this connection are yet continuing
- To Small and Medium Scale Enterprises, extend LKR 1.9 Bn. in financial support via alone its "Business Power Loan" programme
- In addition, the Bank carried out the following:
    a. Played a key role to help the Government procure the first 500,000 doses of Astra Zeneca Vaccine by utilising a funding line from HSBC
    b. For the purposes of enabling the purchase of two Portable Ultra Sound Scanners for the benefit of National Hospitals in Colombo and Kandy the Bank's staff contributed a day's salary towards this crucial purpose
    c. From an environmental standpoint, the Bank established the environmental sustainability initiative the "People's Green Pulse" as part of itis ambitious target to reduce the Bank's overall carbon footprint across multiple verticals and to be certified as a Carbon Conscious Bank within three years. Initiatives included the implementation of an extensive carbon management programme, exemplary promotion of paperless banking, conservation of natural resources, construction of green buildings and encouraging employee participation in green initiatives

EMPLOYEES

The Bank's success has been founded on its team of highly dedicated staff. Our priority - regardless of our operating environment - is to ensure their safety, well-being and financial security. Our employees, trade unions and retirees have continued to be a source of great strength during this time of challenge and change. During 2020 and 2021, the Bank undertake all measures reasonably necessary to ensure their interest are preserved and protected. These include the following:

- Issue necessary guidelines in a prompt manner to minimise their exposure to COVID-19; in line with government health and safety protocols, clearly set out safety procedures to be strictly adhered to, introduce from the very onset flexible work arrangements and special transport services
- Enable remote working
- Provide medical assistance through multiple initiatives which included, amongst other, dedicated ambulance, ease of access to hospital rooms in both Colombo and elsewhere
- Deliver essential food items to those under quarantine
- In this context, it must be said that, these efforts during COVID-19, earned the Bank nomination as the "Most Responsive Bank against COVID-19" at the Asian Development Bank (ADB) Trade and Supply Finance Programme (TSCFP) Awards 2021
- In addition, during the year under review alone, the Bank:
    a. Granted 99 promotions, specialist appointments and absorbed over 180 employees to the permanent cadre
    b. Ensure continued training for all staff. During the year 2021, even despite the limiting circumstances, the Bank provided an aggregate of 19,714 training hours with an average 14.8 hours per employee
    c. Provided additional financial assistance by further lowering rates of interest on all staff loans
    d. With a view of enhancing the rights and privileges of nearly 6,500 employees who joined the Bank on and after January 1, 1996 – the Bank extended the benefits offered

GOVERNMENT

As a national bank, People's Bank has an overarching responsibility to support the Government in their numerous endeavours to preserve and further the country's economic interest. In this connection, People's Bank has discharged its duties with great honour in a number of ways. This remains best described by the following:

- During both 2020 and 2021 extend over LKR 700 Bn. in funding to General Treasury, Ministry of Finance
- Align our objectives strictly in line with Government plans for economic growth. During 2021, People's Bank's loan book growth accounted for close to 22.0% of the industry's loan book growth. At end 2021, close to 50% of the Bank's loan book was devoted to State and Other Stated Owned Enterprises
- During the year ended 31 December 2021, the Bank paid taxes, levies and dividends to the Government of Sri Lanka totalling LKR 16.3 Bn. This was LKR 14.4 Bn. during the same period of 2020. This takes total paid by the Bank on a standalone basis to the Government over the immediately preceding ten-year period to close to LKR 165.0 Bn.

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"Today, People's Bank occupies a **premier position in the Banking and Financial Services landscape and is one of high strategic importance to the nation.** As a national asset, it is a vital cog in the economic value chain"

"Fulfilling its mission of driving the nation towards prosperity, **the Bank has nurtured many small businesses and helped them grow** - most of whom have since evolved into **large corporations with a global footprint"**

GRI 102-14

SIXTY YEARS OF PIONEERING SERVICE TO THE NATION

On 1 July 2021, People's Bank celebrated its 60th Anniversary. It was founded on the premise of democracy and inclusivity with the object of delivering banking services to the masses who were then largely underserved. Over the next six decades which followed, the Bank devoted itself to achieving this objective, providing access and opportunity to improve the lives and livelihoods of all Sri Lankans.

During this time, Sri Lanka's economy has evolved from a society founded on agriculture and small industry to one technologically advanced, highly globally interconnected and forward looking. Fulfilling its mission of driving the nation towards prosperity, the Bank has nurtured many small businesses and helped them grow - most of whom have since evolved into large corporations with a global footprint. The Bank's greatest achievement has thus been its commitment to the advancement of rural Sri Lanka and the agricultural sector in

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"The Bank benefits from over 740 branches and service centres spread throughout the country - the largest for any financial services provider. This has enabled the Bank touch the lives and livelihoods of two of every three Sri Lankans from all walks of life, communities and from all parts of the country"

particular. Serving as a facilitator of economic growth, it has sustained livelihoods, fulfilled aspirations and transformed the face of once considered less developed parts in our country.

As Sri Lanka's economy has evolved and transformed, so has People's Bank. In a banking sector which is increasingly saturated and competitive, it has continued to develop and mature. When we began operations in 1962, we had 23 branches and nearly LKR 160 Mn. in total assets. The Bank benefits from over 740 branches and service centres spread throughout the country - the largest for any financial services provider. This has enabled the Bank touch the lives and livelihoods of two of every three Sri Lankans from all walks of life, communities and from all parts of the country It is self attesting to the way we have fulfilled our mandate. It underlines how far we have come and how much we have grown.

Today, People's Bank occupies a premier position in the Banking and Financial Services landscape and is one of high strategic importance to the nation. As a national asset, it is a vital cog in the economic value chain. The measure of its importance can be gauged in the fact that approximately 50% of its LKR 1.9 Tn. loan portfolio is devoted to the state and other state-owned enterprises with nearly 75% of these loans are concentrated in vital growth sectors of the economy such as consumption, construction, trade, manufacturing, infrastructure, and agriculture. It is in this spirit that I present the People's Bank Annual Report for 2021.

UNPARALLELED GROWTH IN THE FACE OF ADVERSITY

As a national institution, People's Bank has always come forward to shoulder its responsibilities to society and the nation at large. We have always remained unshaken throughout the many trials and tribulations with the last two years being no exception. It was undoubtedly witness to the most adverse economic stress event in our living memory. It caused significant economic set-back, was the source of severe hardships with elevated levels of health risk; not only locally but also globally. No matter how grave the challenge, and how uncertain the uncertainty, People's Bank moved forward with courage and vigour. During the year ended 31 December 2021 - the Bank expanded its balance sheet by LKR 417.5 Bn.; the highest in the Institution's history - and increased its deposits by LKR 236.4 Bn. and net loans by LKR 200.1 Bn. It reported a profit before tax of LKR 30.4 Bn. and post tax profit of LKR 23.7 Bn.; both of which benchmarks in the Institution's sixty-year journey to date.

"SHOULDER TO SHOULDER" WITH ALL OUR STAKEHOLDERS

In keeping with our mandate, we have continued our efforts to build a people-centric economy. We have aligned our objectives with the Government's economic growth targets and expanded our loan base accordingly. During the last two years, our net loans have expanded by LKR 525.5 Bn., accounting for over 23% of the banking industry's total loan book growth.

We have renewed our effort to stimulate rural development, boost small and medium-sized enterprises (SMEs) and create opportunities for all. The Central Bank's refinance scheme enabled us to disburse a total of LKR 6.0 Bn. to help people absorb the impact of COVID-19. Recognising that these businesses make-up a large part of Sri Lanka's economy, we ensured that 80.0% of these funds ultimately, and very importantly, reached SMEs. To facilitate further funding, the Bank signed an MOU with the Industrial Development Board, which allowed us to extend another LKR 121.7 Mn. in financial assistance. We also funded our own credit relief scheme, "Business Power alone", which focused on SMEs in agriculture, information technology, logistics, manufacturing, tea, and tourism. By the end of 2021, we had extended LKR 1.9 Bn. in financial support to small and medium scale enterprises through this Loan Scheme in rural areas.

To energise key sectors of the economy, the Bank inaugurated two special purpose loan schemes reaching out to agriculture and women entrepreneurs. One sought to uplift value chains across farming, fisheries, and animal husbandry whilst the other was designed to encourage and cheer women entrepreneurs running micro and small-scale businesses. Under the *Vanitha Saviya* loan programme, by end December 2021, we distributed LKR 533.5 Mn. to women entrepreneurs across the country.

Agriculture, as I noted above, has been one of our enduring priorities. In conjunction with Small Holder Agri-business Partnership (SAP), the

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Bank introduced a low interest credit scheme for 5,000 farmers with an initial provision of LKR 1.0 Bn.
In 2021 we initiated the *"Saara Bhumi"* loan scheme, to support the production of local fertiliser with the aim of supporting Government endeavours to create a poison-free country. One initiative which is still in the making is the cultivation of export crops. For this purpose, we will be shortly aggressively promoting the "Made in Sri Lanka" loan scheme. To galvanise the farming industry, we have also done our best to make use of advanced technology. One such undertaking is the development of an electronic trading platform for farmers. Done in collaboration with Sri Lanka Telecom, our intention is to significantly restructure the country's agricultural value chain. Looking forward to 2022 - I am proud to say that - our Small and Medium Scale Enterprise loan book is reasonably expected to grow well over 20.0%; as required by the Central Bank.

A DIGITAL FUTURE DELIVERED TODAY

In 2015, People's Bank became the first bank on the island to embrace the future and undertake a comprehensive digitisation programme. During the following years, we have revolutionised the Sri Lankan banking industry by taking innovative banking to the grassroots and reaching deep into the countryside. In doing so, we have improved access to finance. We have made cost savings, improved processes, automated repetitive functions and gained customers without needing to expand our branches. The success of these initiatives has enabled People's Bank to connect, serve and remain relevant to its customers, even at the height of the pandemic. Our customers can now transact their business easily, safely, and efficiently at any time, in any situation.

Our most successful innovation has been Our "People's Wave" mobile banking App, which makes it possible for customers to conduct their business at any time of the day using their mobile devices. This has since become the most downloaded finance app in the country. Thanks to our Electronic "Know Your Customer" initiatives, the Bank's customers can now open a paperless account in as short as 10 minutes. Another digital platform, the "People's Wiz" Loan Originating System, has enabled the Bank to grant personal loans within just 24-hours. We have also introduced a mobile app, "People's Wyn", especially for institutional customers.

The innovative and effective nature of our products has earned us international acclaims. The Asian Banker Excellence in Retail Financial Services International Awards named us "The Best Digital Bank for 2021." We also won the "Best Digital Bank in Sri Lanka" Prize at the International Business Magazine Awards. International Business Magazine also honoured the main figure behind the Bank's digital transformation, naming our Chief Executive Officer (CEO) and General Manager Mr Ranjith Kodituwakku, the "Banking CEO of the Year."

In line with our commitment to technology and the future, the People's Bank is also establishing a technology park in Galle. To begin the process, we have already disbursed LKR 750 Mn. towards this initiative.

SETTING BENCHMARKS FOR GOVERNANCE AND RESPONSIBLE CITIZENSHIP

While dealing with the immediate present, we have also kept in mind the larger global challenges which concern us all. A sustainable environmental policy is very much a part of our outlook for the future. Through our various digital initiatives, we have set ourselves on path to systematically reduce our carbon footprint. To do so, we have endeavoured to control the management of waste across all our branches and have taken our first steps towards gradually powering our branches through the use of solar. We are currently in the process of also constructing our first 100% green branch in Jaffna. The conservation of natural resources is at the top of our agenda.

Banking must also operate within a larger value system. As a national institution, we remain deeply conscious of our wider responsibilities towards both our customers and our society. Within the Bank, we have sought to establish a righteous, disciplined, fair and law-abiding culture. Governance and integrity is a core part of our makeup and we have paid great attention to building an efficient governance mechanism and maintaining a zero tolerance policy for corruption. All People's Bank operations are conducted in strict compliance with the Central Bank of Sri Lanka Customer Charter and we uphold a transparent approach in all our dealings with our stakeholders. We will not finance any project documented as illegal in our credit policy nor will we sell or market any prohibited products or services.

The Bank has received several domestic and international acclaims even on this front which attests to its performance and overall governance. It underlines the nature of our achievement even during these extraordinary times. At home, we were rated as one of the "Top 10 Most Admired Companies" for the fourth consecutive year, and designated one of "The Top 10 Women Friendly Workplaces in Sri Lanka." Internationally too, our performance was noted and commended. We were singled out by Asiamoney as the "Best

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Domestic Bank in Sri Lanka" and ranked by The Banker Magazine as one of the world's "Top 1000 Banks." Even at this time of extraordinary challenge, we have continued to deliver. As a nation and a bank, we have been challenged and tested but we have not only survived but thrived in courage and vigour.

OUR JOURNEY IN THE COMING YEAR - CHALLENGING BUT ONE FILLED WITH HOPE

To continue on our journey in the coming year, there are many things which we must yet overcome. No matter how daunting the tasks at hand may seem, nothing is beyond our collective reach and capability. Continuously improving productivity and cost efficiency Bank-wide is one aspect of key focus. Further, the focus is on further strengthening our core banking units and leveraging our strengths so we can serve the country better whilst continuously enhancing the customer experience, through the use of technology amongst others, and the customer engagement.

As the Bank of the People, our first responsibility is to our customers. Serving them, supporting them and keeping them prosperous is a core part of our duty as a national bank. Under the leadership of our Chief Executive Officer/General Manager, our staff members have faced every challenge with courage and determination. Their commitment, agility and sheer resourcefulness has enabled People's Bank to cope to the many hurdles and obstacles.

MY HEARTFELT GRATITUDE

Our ability to endure and go forward has been founded on strong relationships. A key source of the Bank's success has been the bond between the Bank's Board of Directors and the Management and that with its trade unions, retiree associations and other stakeholders. Above everything else, it is derived from the unwavering loyalty and affection of staff members towards the Bank. Together we have forged an understanding and built relationships which work and deliver as demonstrated even in the most difficult of circumstances.

I extend my sincere appreciation and gratitude to His Excellency the President, the Honourable Prime Minister and the Honourable Minister of Finance for their leadership in these difficult circumstances. I also extend our heartfelt gratitude to the Governor of the Central Bank of Sri Lanka, the Secretary to the President and the Secretary to the Treasury for their support and guidance on all matters of a related nature. To my colleagues on the Board of Directors, a big thank you for your dedication and wise counsel as we navigate the Institution through these extraordinary times. I also owe a big thank you to our dynamic Chief Executive Officer/ General Manager for his leadership, together with the Management and staff at all levels for their tireless efforts. Importantly, to our valued customers and other stakeholders - our success is undoubtedly yours. Your continued trust and confidence in us has not only enabled us serve the country in a manner previously unseen but also help the Institution distinguish itself from the rest in the Banking and Financial Services space; both from a quantitative and qualitative perspective!

I look to the future with a great degree of hope and optimism!

SUJEEWA RAJAPAKSE
Chairman
28 February 2022

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SIX DECADES OF **MULTIFACTED BRILLIANCE**

In the six decades of its history, People's Bank has **meteorically increased its customer base and its network.** Exploring new frontiers, it has **pioneered new products and solutions,** introducing services which had not been readily available to all before. The quality of its service has been recognised by n**umerous national and international bodies,** who have duly noted its success in driving financial inclusion and fostering economic growth.

Throughout the years, **the Bank has received numerous national and international accolades.** The success of **the Bank's digitalisation strategy has enabled greater financial inclusion** and to enhance the economic wellbeing of all its customers from all walks of like alike. By making banking quicker, easier and more efficient, it has transformed the nature of banking and customer services, earning the Bank a series of awards for its contribution to innovation and digitisation.

From its first decade, **People's Bank has made agriculture and the rural development one of its core priorities.** To date, the notable portion of the Bank's loans are allocated to the agriculture sector both direct and indirect.

Fulfilling its mandate as the **"Bank of the People",** it has penetrated deep into rural Sri Lanka and has been an engine of change, unleashing real potential and nurturing small and medium scale enterprises. Whilst enabling the generation of income and sustaining livelihoods, it has **ultimately been a catalyst in the development of rural Sri Lanka.**

People's Bank is the **first financial institutions to respond to the call of relief at the onset of the COVID-19 pandemic.** Despite its severity, the Bank has met such challenges with courage and vigour, fulfilling its duty to its customers and playing its role to preserve and protect the wider economy from further harm and consequence.

In its 60 years, of operations People's Bank has evolved into a national institution which **serves close to 14.5 million customers throughout the country,** - i.e. covering close to 60% of the country's population. Over the last six decades, the Bank has consistently improved its performance, and systematically thereby its contribution to the national economy. This contribution has been **key source of support to its Shareholder the Government of Sri Lanka since its inception**.

With a **rich legacy of pioneering change** in the Banking & Financial Services industry and having created positive value added for the benefit of all its stakeholders over the years, and having overcome overwhelming odds and obstacles in its journey, the Bank looks forward to the future with a great degree of hope and optimism!

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CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW

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"Taking a pioneering role in digitisation and customer engagement, **the Bank has become a leader in digital banking, delivering cutting edge technology to benefit the entire nation.** Over the last few years, People's Bank has established the country's largest digital network which has penetrated deep into rural areas"

"The pandemic and the resulting lockdowns and restrictions during both 2020 and 2021 had a massive impact on both local and global economies. **It has forever changed the way we see the world, think and function"**

The pandemic and the resulting lockdowns and restrictions during both 2020 and 2021 had a massive impact on both local and global economies. It has forever changed the way we see the world, think and function. The third wave of the pandemic in April 2021 had a considerable impact on the pace of economic recovery in Sri Lanka. It dealt a severe blow to key foreign exchange earning sectors; resulting in a drastic decline in foreign exchange inflows to the country, undermined the stability of the exchange rate and further hurt investor and lender confidence. Although expenditure continued to rise, slow-moving economic activity served to reduce Government revenues, exerting significant pressure on Government fiscal balances and thereby warranting additional borrowing.

The combination of these circumstances put the Bank and its employees under tremendous pressure. It put our commitment, our digital capabilities, our customer centricity and our overall ability to deliver to the ultimate test. Notwithstanding, we continued to serve, keeping more than 70% of our branches open even during the height of lockdown and providing over LKR 800 Bn. in funding during the pandemic stricken twenty-four month period to date. This provides ample testimony to our

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"During 2021 we introduced a number of new initiatives and solutions which have enabled us to expand our network and improve our financial performance"

strength, resilience, and our collective capability even during the most challenging of circumstances.

A CONTRIBUTION WHEN IT MATTERS

Despite the challenging circumstances across the year, we were able to perform strongly and surpass our expectations. During the year 2021, the People's Bank expanded its balance sheet by LKR 417.5 Bn. This same period saw a deposit growth of LKR 236.4 Bn., which marked a growth of 12.9% from the previous year. We saw a growth in net loans of LKR 200.1 Bn. and an investment in treasury securities of LKR 254.7 Bn. By the end of the year we had made a profit which exceeded LKR 30.0 Bn. before tax and amounted to LKR 23.7 Bn. after tax.

As a result of our financial success and sound management, we have been able to render an unparalleled level of support to the Government. The extent of our contribution to the national cause can be measured by the fact that during the two year period till 31 December 2021, People's Bank accounted for nearly 18.5% of the banking sector's entire asset and net loan growth. The statistics at this time also show that nearly 50.0% of the Bank's gross loans were to the state and other state owned enterprises.

PRIDE OF THE NATION

In July 2021, People's Bank celebrated its 60th Anniversary. For over 60 years, the Bank has been praised for its consistency, its leadership and its sustainable growth. It has made great efforts to understand its customers and has revolutionised Sri Lanka's banking industry by deploying new technology and innovative products. This approach has gained the Bank a customer base of close to 14.5 million, the largest in the country.

Since its inception, the Bank has had two taglines that denoted that it was truly a bank for the common people: "Pulse of the People" and "The Bank of the People." To mark the occasion of Bank's 60th Anniversary, "Pride of the Nation" motto was launched.

We have adopted the phrase, "Pride of the Nation" as our refrain for the future. We trust that it will reflect the way we see ourselves and the way we are seen by others. We also hope that it will elevate our appeal to all segments of the market. We will continue to leverage our unique position as a national-minded entity and aim to promote and embrace the pride of being Sri Lankan. We believe that this tagline will encompass all the Bank's achievements and ambitions to create financial and non-financial value for all its stakeholders, the wider community and the environment, thus truly justifying our claim to be "Pride of The Nation."

FINANCIAL INCLUSION

During 2021 we introduced a number of new initiatives and solutions which have enabled us to expand our network and improve our financial performance. They have also served to develop our product portfolio, enhance brand value and build new relationships with our customers.

To develop young graduates and entrepreneurs, we have introduced an Entrepreneurship Development Programme, "People's SPARK". Using funds from the Asian Infrastructure Investment Bank (AIIB), we also implemented a Working Capital Loan Scheme. In keeping with the Government's policy, we instituted the *Saraboomi* Loan scheme to encourage the use and manufacture of organic fertilizer. To attract professionals and salary earners, the Bank brought in a special housing loan, the People's Home Loan. Under this unique initiative, borrowers are required to make only interest payments for the first five years of the loan term. To assist young people in the early stage of their careers, we designed a laptop scheme for students enrolled in universities, technological institutes and vocational training colleges. We also reached out to medical students at state universities by offering personal loan facilities.

To assist entrepreneurs and promote self-employment, we introduced series of loans and programmes. For those in the agricultural and handicrafts sector, we initiated the *Diri Shakthi*, "Strength for Life" Loan programme. For young entrepreneurs recommended by the National Youth Services Council, the Bank established the People's *Thurunu Shakthi*, "Strength for Youth" programme and the People's *Divi Maga* loan scheme, for businessmen recommended by the Urban Settlement Development Authority.

In line with the policies of the Central Bank, a special programme was established to develop the domestic agricultural sector. Known as the Domestic Agriculture Development Pilot Project, this was another special finance scheme to support

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smallholders in various forms of agribusiness. This was part of a series of schemes which included a credit guarantee scheme for paddy millers and bulk loans for various projects and products.

Building relationships for the future, the Bank also forge agreements and signed memorandums of understanding with various organisations and professional bodies. We renewed our MOU with the Government Medical Officers' Association (GMOA) for second consecutive year and undertook new agreements with the Open University, the Faculty of Medicine, University of Sri Jayawardenapura and the Institute of Chartered Certified Accountants. The Bank also established relations with a number of Government bodies, the Co-operative Rural Bank Federation, the National Youth Council, the Small Entrepreneur Division and the Urban Settlement Development Authority.

In the personal banking sector, we reworked and repositioned the People's Bank's YES account which we had developed to appeal to young people. Presenting the account in a new form, we tailored it to suit various sectors and segments of the customer base, creating a series of special products such as Yes Uni, Yes Skills and Yes *Saubagaya*.

Serving all sections of the community is a very important part of the Bank's mission. Women and pensioners represent critical segments of our business and we took care to pay attention to their interests. To celebrate World Women's Day, the Bank added a series of special benefits to enhance the *Vanitha Vasana* savings account for women who it had pioneered in 1993. We also made it possible for Pensioners to obtain their Life Certificates through our branch network.

During this period, we were also able to develop several new card products, such as the Master Debit Platinum Card and the VISA Corporate Card. Several new features were also added to our existing cards, such as a 60 Months Instalment Plan and a Loan on card facility. People's Bank became the first bank to be an issuer and an acquirer of the LankaPay National Card Scheme, the domestic card scheme introduced by the Central Bank in partnership with the Japan Credit Bureau (JCB) International Card Company. One of the six leading card companies in Japan, JCB is the only international credit card brand based in Asia.

TRANSFORMING THE BANKING LANDSCAPE: A DIGITAL SUCCESS STORY

Taking a pioneering role in digitisation and customer engagement, the Bank has become a leader in digital banking, delivering cutting-edge technology to benefit the entire nation. Over the past few years, People's Bank has established the country's largest digital network which has penetrated deep into rural areas. As a result we are in a unique position to reach out close to 14.5 million customers.

The products introduced by the Bank have transformed the banking landscape in Sri Lanka. People's Bank has been at the forefront of providing digital financial services to the rural areas of the country and has gained unparalleled success in turning Sri Lanka into a digital society. In 2021 the registered user base for Retail Internet Banking and Mobile Banking Appliances exceeded one million. The development of Self Banking Units (SBUs), consisting of ATMs, CDMs and Kiosks, allowed customers to bank 24 hours a day, 7 days a week, 365 days a year.

Over the course of 2021, our island-wide network of ATMs, CDMs and Self-Banking Kiosks facilitated 82.6 million transactions to the tune of LKR 1.2 Tn. Our 797 ATMs enabled more than LKR 800 Bn. to the tune of transactions, our 298 CDMs witnessed more than LKR 460 Bn. to the tune of transactions, while our self-service kiosks supported LKR 5 Bn. to the tune of transactions.

Throughout 2021, the Bank's digital banking innovations, "People's Wave", "People's Wyn", "People's Pay", and "People's Wiz" have been massively successful. "People's Wiz", a paperless digital solution for opening an account, has recorded the onboarding of 1.7 million customers. This is more than treble the number of customers in 2020. People's Wave, has become the country's most downloaded banking app with over one million active users, generating a total fee based income of LKR 101 Mn. "People's Wyn", an app enabling businesses to authorise, approve and conduct corporate transactions, registered 7,227 customers, more than three times the number in 2020. The Bank's digital loan processing facility, "People's Wiz" Retail Loan Originating System (RLOS), revolutionised the process of granting loans and allowed the Bank to disburse personal loans within 24 hours with minimal documentation. This grew so fast that by December 2021 it had spread to 200 branches, double the number of the previous year.

During the year the Bank introduced several innovative products and features. One of these was the "People's Pay" Wallet app. A payment solution combined with lifestyle features to promote cashless transactions, "People's Pay" is available in English, Sinhala, and Tamil. Two new initiatives transformed the process of identifying and verifying the customer's identity when opening

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an account-Electronic Know Your Customer (EKYC) and Video Electronic Know your Customer (VEKC). The Bank also incorporated features such as anti-money laundering technology into the process of digital account opening and Real Time Gross Settlement into its Corporate Internet Banking. People's Bank also became the first and only bank in Sri Lanka to be accredited with the ISO/IEC 27001:2013 certification; the highest international accreditation for information protection and security.

OUR PEOPLE

The most important element in our story has been our staff and our workforce. They have coped, adapted and evolved as we have gone forward. It is their resilience and their commitment which has enabled us to deal with the extraordinary challenges we have had to face. Their support has been the foundation of our success and our growth.

To improve our systems even further, we have taken steps to heighten our performance and sharpen our effectiveness as a team. One of these is the establishment of an advanced Human Resources Information System for the Bank. We expect that this will make the decision-making processes and tasks relating to Human Resources even faster and more accurate than before. We also plan to establish a Performance Management System which will help us analyse and evaluate what we do and the way we do things.

BUILDING OUR BRAND

Our pursuit of excellence has met with national and international recognition. One of the most eminent accolades has come from the Asian Banker Excellence in Retail Financial Services International Awards. Being one of the world's most prestigious awards, this programme is run on a completely neutral basis and entails the assessment of over 160 financial institutions by a team of highly experienced international researchers over a period of several months. In recognition of the great strides we have made in the area of digital banking, in 2021 we were adjudged the "Best Digital Bank." We were also acknowledged as the "Best Retail Bank in Sri Lanka" for our performance in the retail banking area.

The nature and quality of our service has earned national and international attention. In 2021 we were named among the "Top 10 Most Admired Companies in Sri Lanka" by the Chartered Institute of Management Accountants (CIMA), the International Chamber of Commerce of Sri Lanka (ICCSL) and the Daily FT. This was the fourth consecutive year that we have received this tribute. We also won the SLIM Nielsen People's Award 2021 for being the Service Provider of the year, for the fourteenth consecutive year.

At the first ever Women Friendly Workplace Awards (WFW) in 2021, the Bank was recognised as one of the Top 10 Women Friendly Workplaces in Sri Lanka. As nearly 60% of the Bank's staff is female, this was one honour which we were particularly proud to receive.

Despite all the trials which we have had to overcome, the Bank also made its presence felt in the global rankings. The international financial publication, Asiamoney ranked us as the "Best Domestic Bank in Sri Lanka". At the World Finance and International Business Magazine Awards, amongst other, we received the accolade for "Best Digital Bank in Sri Lanka". One of our greatest achievement is the recognition which we obtained from The Banker Magazine. One of the world's pre-eminent publications on financial affairs, Banker Magazine ranked us amongst the world's "Top 1000 Banks" for the fourth consecutive year.

Taken all together, these accolades provide a solid testament to our constant and dedicated commitment to our nation and its people. A tribute to everything that we have achieved, they have been the result of a massive collective effort, one which we can all share and take great pride in.

RECALIBRATING FOR THE FUTURE

We expect 2022 to be another challenging year. We will continue to focus on our strengths, our strong financial performance, our digital drive and our quality of service. However, due to the problems and issues in the larger economy, we can foresee a variety of issues and problems. As our foreign currency liquidity is low, our principal task and greatest challenge is to increase foreign currency deposits and foreign fund transfers. This is the burning question which lies before us.

Nevertheless, we mean to begin 2022 with optimism and ambition and plan to set ourselves higher goals and targets.

WORDS OF GRATITUDE

Instead of falling backward during this extraordinarily difficult time, we have been able to go forward and surpass our expectations. In the circumstances, this represents a remarkable achievement. It could not have been done without the teamwork and unstinted support of all staff, our trade unions and our retired officers.

In this year of many highs and lows, the Bank has endured and progressed. Its success has been founded on the efforts of our team, who have gone above and beyond the call of duty. I

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wish to extend my deep gratitude to our Chairman and Board of Directors for their guidance and leadership. I would also like to extend my appreciation to the Senior Officials at General Treasury, Ministry of Finance and the Central Bank of Sri Lanka for their wise counsel. I must also thank my corporate and executive members and staff at all levels for their hard work, determination and dedication. Most importantly, I extend our sincere gratitude to all our customers for their continued trust and confidence in the Institution.

We look forward to the future with hope and optimism as we navigate the many challenges in our unrelenting pursuit to rebuild our great nation!

RANJITH KODITUWAKKU
Chief Executive Officer/
General Manager
28 February 2022

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BOARD OF DIRECTORS

From left to right: **Mr Sudarshan Ahangama, Ms Bhadranie Jayawardhana, Mr Isuru Balapatabendi, Mr Sujeewa Rajapakse**

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From left to right: **Mr Keerthi Goonatillake, Mr K A Vimalenthirarajah, Mr Manjula Wellalage, Mr Kumar Gunawardana**

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MR SUJEEWA RAJAPAKSE

Chairman

Mr Sujeewa Rajapakse is a Managing Partner of BDO Partners, a firm of Chartered Accountants. A Fellow of The Institute of Chartered Accountants of Sri Lanka (FCA) and a Fellow of the Institute of Chartered Management Accountants of Sri Lanka (FCMA). Mr Rajapakse holds a Master of Business Administration (MBA) from Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura.

During his professional career that spanned nearly four decades, he held the honorary positions of President, Vice President and Council Member (elect) of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), Former Chairman of Auditing Standards Committee of CA Sri Lanka, President of Practicing Accountants Forum of Sri Lanka, Treasurer of Sri Lanka Cricket, Treasurer for Cricket World Cup 2011, Board Member and Technical Advisor to South Asian Federation of Accountants (SAFA), Technical Advisor to Confederation of Asia Pacific Accountants (CAPA). He is the current Chairman at People's Leasing & Finance PLC.

He has served in the directorates of National Development Bank PLC, NDB Capital Holdings Ltd. - Bangladesh, The Finance Company PLC (appointed by the CBSL under the restructuring programme) Unidil Packaging Ltd & Unidil Packaging and Solutions Ltd, and Deputy Chairman of Softlogic Life Insurance PLC.

Currently he is serving as the Board member at Haycarb PLC, Dipped Products PLC, Hayleys Agriculture Holdings Ltd. and Lanka Holdings (Pvt) Ltd. Also, he is a Council member of the University of Sri Jayewardenepura.

His expertise includes all accounting and auditing standards and practices, Government regulations related to financial disciplines and ethics, human resource management and overall management practices and principles in both private and public sectors.

MR KUMAR GUNAWARDANA

Director

Kumar Gunawardana was appointed to the Board of Directors of People's Bank on 26 December 2019 as a Non-Executive Director. He commands over 40 years of experience in diverse areas of banking. Having started his career with Commercial Bank PLC in 1979, he has moved on to Amsterdam Rotterdam Bank (Amro Bank), ABN Amro Bank and finally to National Development Bank PLC (NDB). He has served in Senior Management positions for over 20 years having first appointed as an Assistant Vice President of ABN AMRO Bank in the year 2000. His areas of expertise is wide and varied and include branch network management, institutional banking, trade finance, operations, administration and services.

He has also served as a Member of the Board of Directors of Development Holdings (Pvt.) Ltd. which is an entity jointly owned by National Development Bank PLC (NDB) and Export Development Board (EDB) and Treasurer of Sri Lanka Tennis Association.

MR SUDARSHAN AHANGAMA

Director

Sudarshan Ahangama is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka. From 2004 - 2020, he served with MAS Holdings, as its Group Finance Director, where he had responsibilities for the finance function in 17 countries across multiple regions. Currently he serves as Director Strategic Investments handling the Group's mergers acquisitions, cross border transactions, venture capital investments and organisational restructuring.

Previously he was with John Keells Holdings, as Managing Director of John Keells Stock Brokers. He was part of the exchange automation task force and led several roadshows overseas promoting the equity markets. In a subsequent role as Managing Director of the software out-sourcing activities of the Group he was also responsible for setting up several development centres in collaboration with leading global airlines and telecommunication companies. He served on many Boards in both the Financial Services and IT sectors at John Keells.

MR ISURU BALAPATABENDI

Director

Mr Isuru Balapatabendi is an Attorney-at-Law and currently operates a Law Chamber in the practice of Civil and Commercial Law. He also holds a LLM from the University of Pittsburg, Pennsylvania, USA.

Mr Balapatabendi served as a State Counsel in the Attorney General's Department, prior to being appointed a Diplomat to the Embassy of Sri Lanka in The Hague, The Netherlands from 2008 to 2010, during which he served as the representative of Sri Lanka, to the organisation for Prohibition of Chemical Weapons and Hague Convention of Private International Law (HCCH). He was also appointed as the Head of Chancery at the Sri Lankan Mission in The Hague.

He was appointed as the Legal Advisor to the Minister of Investment Promotions in 2012, for legal matters relating to investment laws in Sri Lanka and Board of Investment.

Mr Balapatabendi has also served in the Director Boards of Sri Lanka Insurance Corporation, Seylan Bank, and Bank of Ceylon, prior to being appointed to the People's Bank Board. He is also currently serving in the Director Board of Sri Lanka Ports Authority.

He has served as an executive committee member of the Bar Association of Sri Lanka. He was appointed the Chairman of the Junior National Law Conference in 2007 and as the Convener of the National Law Conference 2020. Mr Balapatabendi was also elected as the Secretary of the Bar Association of Sri Lanka for the year 2022/2023. He is currently functioning as the Chairman of People's Insurance PLC.

MR KEERTHI GOONATILLAKE

Director

Mr Keerthi Goonatillake obtained his Bachelor of Science Degree at University of Colombo and Specialised Computer Hardware Engineering at Cybernetics Department at University of Reading, UK. He has over three decades of extensive experience in Information Technology, Digital Forensics, Infrastructure Consultancy, Project Management and Human Resource Development.

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With a range of internationally recognised professional qualifications that cover Mobile Phone Forensics, Network Investigation, Data Recovery and Analysis at National Policing Improvement Agency UK, Multimedia Communications Engineering KDDI Corporation Japan, Multimedia Systems Development at Overseas Technical Scholarship, Japan, NEC Mainframe Computer Maintenance NEC Japan, Mechatronic Systems Technology, Singapore. Mr Goonatillake has played a key role as a Consultant/TEC Member and adviser in projects of national interest that includes; eNIC Project of the Ministry of Defence, Public Transport Bus Tracking System of Ministry of Transport, Sri Lanka Internet Project of University of Moratuwa.

Mr Keerthi Goonatillake has served as an International Advisory Panel Member in International Conference on Cyber crime Forensics and Education Organised by Canterbury Christ Church University, UK and has held the positions of Consultant, Coordinator, Computer Programmer, Computer Instructor, Technical Research Assistant, Committee Member, Board Member, Energy Manager, Indirect Counterpart and Local Counterpart in various professional committees of University of Colombo. He is a professional member of the Computer Society of Sri Lanka since 1991.

He was the Founder of the Digital Forensics Centre and the Initiator of the Engineering Division of the University of Colombo School of Computing (UCSC), and also Founder Member of the Institute of Computer Technology and University of Colombo School of Computing since its inception.

He has been awarded many times in recognition for his dedicated services rendered to the University of Colombo over a period of three decades.

He currently works as Director - Development at the Central Cultural Fund.

MR MANJULA WELLALAGE

Director

Mr Manjula Wellalage is an Attorney-at-Law who has been in practice at the Private Bar for nearly two decades. Prior to becoming an Attorney-at-Law, he served as the Resource and Research Officer in charge of the Community Based Legal Aid Project which was spearheaded by the Ministry of Justice. He has also discharged his duties in the capacity of Resource Officer to the Resource, Research and Information Centre (Constitution Affairs) of the Ministry of Justice and Constitutional Affairs.

During his illustrious legal career, Mr Wellalage has organised numerous projects and programmes on constitutional reform as well as raising community legal awareness whilst intervening to resolve critical legal issues at national level on behalf of the Ministry of Justice.

MR K A VIMALENTHIRARAJAH

Director

Mr K A Vimalenthirarajah was appointed as the Treasury Representative/the Representative of the Ministry of Finance to the Board of People's Bank in January 2020. He is an officer of Sri Lanka Administrative Service, counting over 26 years of experience in the public service. He is presently working as the Director General, Department of Trade and Investment Policy.

He is an Attorney-at-Law.

Mr Vimalenthirarajah holds a Special Degree in Economics from the University of Jaffna, Master of Philosophy in Economics from the University of Peradeniya, Master of Business Administration from the University of Moratuwa and Bachelor of Laws from the Open University of Sri Lanka. He has a Postgraduate Diploma in Development Studies and Public Policy, Postgraduate Diploma in International Relations, Diploma in Human Resource Management and Diploma in Information Technology.

Prior to his appointment as the Director General, Department of Trade and Investment Policy of the General Treasury, he has held various positions in the public service including the positions of Director General, Department of Fiscal Policy, Senior Assistant Secretary in charge of Administrative Reforms, the Chief Information Officer of the Ministry of Public Administration and Home Affairs, Minister Counsellor of the Sri Lankan Embassy in Beijing, China.

Mr Vimalenthirarajah is the Sri Lanka's Director to the SAARC Development Fund, Member of the Supervisory Board for the Commonwealth Small States Trade Finance Facility (CTFF), and Director of the Board Directors of the Sri Lanka Insurance Corporation. He has also represented the General Treasury as Director of the Board of the Bank of Ceylon, the Sri Lanka Tourism Promotion Bureau, the Board of Investment of Sri Lanka, the Ceylon Petroleum Corporation, and the Institute of Human Resource Advancement of the University of Colombo and as Chairman, Sri Lanka Insurance Corporation.

MS BHADRANIE JAYAWARDHANA

Director

Ms J M Bhadranie Jayawardhana is a Senior Member of the Sri Lanka Administrative Service. In her service of thirty years, Ms Jayawardhana had undertaken important responsibilities in institutions which come under the purview of provincial councils and the central Government. Furthermore she had served as the Secretary of the Ministry of Health and the Ministry of Internal Trade, Food Security and Consumer Welfare. At present she serves as the Secretary of the Ministry of Trade and as Board member of Development Lotteries Board and Mahapola Trust Fund.

Ms Jayawardhana received her BA (Hons) Degree from the University of Peradeniya in 1986. Thereafter she obtained several postgraduate qualifications that include Master of Planning and Regional Development from the University of Colombo (2016), Master of Public Management from SLIDA (2010) and Postgraduate Diploma in Business Management from the University of Rajarata (2005).

For performing nationally important tasks with extraordinary care and efficiency Ms Bhadranie Jayawardhana had received several honours and awards. The long list of such appreciations include contribution to events such as organising 15th Summit of SAARC (2008), 23rd Commonwealth Heads of Government Meeting (2013), Visit of His Holiness Pope Francis (2015), and assisting in controlling the first wave of the COVID-19 Pandemic (2020). She was the Colombo Municipal Commissioner when at the period when Colombo was ranked as the "World's fastest growing city". In addition to serving as the Secretary of the Ministry of Trade, Ms Jayawardhana held the position as member of the Delimitation Committee of Local Government of the Western Province.

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CORPORATE MANAGEMENT

Front row left to right: **Ms Renuka Jayasinghe, Mr Rohan Pathirage, Mr K B Rajapakse, Mr Ranjith Kodituwakku**
Back row left to right: **Ms Kumari Senaratne, Ms Nipunika Wijayaratne, Ms Roshini Wijerathna, Ms P S J Kurukulasooriya, Ms Krishani Narangoda**

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Front row left to right: **Mr Clive Fonseka, Mr Mahinda Premanath, Mr Lionel Galagedara, Mr Azzam A Ahamat**
Back row left to right: **Mr Lalith Withana, Mr Chanaka Wanigasooriya, Mr K A Nihal, Ms Preethie Katulanda**

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MR RANJITH KODITUWAKKU

Chief Executive Officer/
General Manager

Mr Kodituwakku is a veteran banker, serving as the Chief Executive Officer/ General Manager of People's Bank. He has nearly four decades of multi-faceted experience in local as well as cross border operations.

He has a wealth of banking knowledge in a wide spectrum of areas covering Branch Banking, Consumer Banking, Commercial Banking, Corporate Banking, Off-shore Banking, International Banking, Project Financing, Recoveries and Digitalisation etc.

He is a key figure in driving the bank towards digitalisation on mapping business requirements to a digital platform by adopting best practices in the industry and re-engineering business processes for which the bank was awarded many prestigious awards/ recognitions both internationally and locally.

He also serves as the Chairperson of Financial Ombudsman Sri Lanka (Guarantee) Ltd., and Lanka Financial Services Bureau Ltd., Vice Chairperson of Sri Lanka Banks' Association (Guarantee) Ltd., Director of People's Leasing & Finance PLC, People's Insurance PLC, People's Merchant Finance PLC, People's Travels Ltd., Lankan Alliance Finance Ltd. - Bangladesh, Credit Information Bureau of Sri Lanka and Lanka Clear (Pvt) Ltd. and a Governing Board Member of Institute of Bankers of Sri Lanka and National Payments Council.

Mr Kodituwakku holds a Master's Degree in Business Administration specialised in Finance from the University of Colombo, Bachelor of Laws (Honours) from the University of New Buckinghamshire, United Kingdom and is a Senior Fellow Member of the Institute of Bankers of Sri Lanka and a Certified Member of Sri Lanka Institute of Marketing.

MR K B RAJAPAKSE

Senior Deputy General Manager -
Payment and Digital

Mr Rajapakse oversees the People's Card Centre and Digitalisation Department as the Senior Deputy General Manager (Payment and Digital) of the Bank since November 2020. He joined the Bank in 1987 as a Management Trainee and counts over 35 years of experience in People's Bank.

He has gained extensive exposure in various management level capacities in the branch network of the Bank and Corporate Banking Division. He has over 13 years of experience in Corporate and Executive Management positions.

He holds a Second Class Honours Degree (BSc) in Public Administration from the University of Sri Jayewardenepura and has a Master's Degree in Management and IT from the University of Kelaniya. He is a Fellow Member of the Institute of Bankers of Sri Lanka, an Attorney-at-Law of Sri Lanka and holds a Diploma in Sri Lanka Institute of Credit Management.

Mr Rajapakse is presently the Chairman of People's Leasing Fleet Management Limited and People's Micro-Commerce Limited. At present, he is the President of the Association of Professional Bankers of Sri Lanka (APB). He has served as an Ex-officio Board member in several regulatory organisations namely, The Governing Board of Institute of Bankers of Sri Lanka, Regional Development Bank and also served as an Alternate Director of Credit Information Bureau of Sri Lanka.

MR ROHAN PATHIRAGE

Senior Deputy General Manager -
Overseas Customer Services

Mr Rohan Pathirage holds a Master's Degree in Bank Management from the Massey University, New Zealand. He is also a holder of a Postgraduate Diploma in Banking. He is an Attorney-at-Law and holds a Law Degree from the University of Colombo. He has been a senior member of People's Bank Corporate Management team and a member of the key Management Committees.

Mr Pathirage is currently the Senior Deputy General Manager - Overseas Customer Services of People's Bank. He oversees Bank's foreign remittance business and foreign currency accounts. He is also functioning as Director - People's Leasing & Finance PLC, Chairman - People's Leasing Havelock Properties Limited, Director - People's Leasing Fleet Management Ltd., Director - People's Micro Commerce Limited, Director - Lankan Alliance Finance Limited, Bangladesh, Director - People's Travels (Pvt) Ltd. Alternate Director - Institute of Bankers of Sri Lanka.

He counts for over 26 years experience across Human Resources, Legal and Administration relating to Bank. As the Senior Deputy General Manager (Human Resources and Legal) of People's Bank, he managed the Bank's 10,000 plus strong workforce and its Senior Executive recruitments in line with its HR requirements. In addition, he also led the Bank's 70 member legal team. He also functioned as Deputy General Manager - Secretary to the Board of Directors of People's Bank. Mr Pathirage provided administrative support to all matters relating to the Bank's Board of Directors and its various subcommittees.

MS RENUKA JAYASINGHE

Deputy General Manager -
Retail Banking, Process Management,
and Quality Assurance

Ms Renuka Jayasinghe joined the Bank in 1987 as a Management Trainee and counts over 34 years of experience in the field of banking.

During her career, she has covered the Branch Banking Area at the levels of Branch Manager, Zonal Senior Manager, Regional Manager and Asst. General Manager, Deputy General Manager (Cooperative and Development) and Deputy General Manager (Retail Banking) and worked as Deputy General Manager (Business Support Service). Presently, she is working as the Deputy General

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Manager (Retail Banking, Process Management, and Quality Assurance).

She holds a First Class Special Degree in BCom from the University of Sri Jayewardenepura and has a professional banking qualification (AIB), Sri Lanka. She is a Life Member of Association of Professional Bankers of Sri Lanka and Institute of Bankers of Sri Lanka and a Member of the Dean's Advisory Committee (DAC) of the Faculty of Humanities and Social Sciences of the University of Sri Jayewardenepura with effect from 1 January 2021.

MR CLIVE FONSEKA

Head of Treasury, Investment Banking, and Financial Institutions

Mr Fonseka is a Fellow of the Institute of Bankers of Sri Lanka and holds a Master's Degree in Business Administration from Postgraduate Institute of Management of University of Sri Jayewardenepura. He has received a Distinction for the ACI Dealing Certificate and counts more than 28 years experience in Treasury Management. He is also a Certified Member (CMA) of the Institute of Certified Management Accountants of Australia.

He has acted as the President of the Association of Primary Dealers during the period of 2018 to 2020, as a member of the National Payment Council, Financial System Stability Consultative Committee and the task force to study and design a new alternative benchmark interest rates committee of Central Bank of Sri Lanka. At present, he acts as a member of the Central Bank of Sri Lanka's Market Working Group on Domestic Financial Market Infrastructure Development Project. He also acts as a non-independent Non-Executive Director at People's Leasing & Finance PLC and Lankan Alliance Finance Limited at present. Furthermore, he has acted as a Chief Examiner for Institute of Bankers of Sri Lanka's IABF/DABF Examinations previously.

Mr Fonseka joined People's Bank in 2002, prior to which he served at American Express Bank and Standard Chartered Bank. He has been a member of People's Bank's Senior Corporate Management team from November 2011.

MR MAHINDA PREMANATH

Deputy General Manager - Channel Management

Mr Premanath joined People's Bank as a Management Trainee in 1987 and counts over 34 years of service. Presently he is being appointed as the Deputy General Manager (Channel Management).

During his banking career, he has participated in various exposure programmes both locally and internationally and has vast knowledge in managing business banking by holding various management level capacities.

From 2011 to end October 2020 he held the position of Deputy General Manager (Banking Support Services) and was in charge of six departments covering Supplies, Transport, Security, Maintenance Engineering, Building Engineering, and Desk Top Publishing where he has gained variety of immense experience in procurement, construction and maintenance, stores and inventory control, transport and security procedure.

From November 2020 up to now he is the in charge of service delivery channels consist of 740 regulatory units of the branch network and 1,313 plus supplementary network composed of ATMs, CDMs and Kiosks

He holds a Second Class Upper Degree in BCom from the University of Colombo and AIB-Intermediate Sri Lanka.

MR LIONEL GALAGEDARA

Deputy General Manager - Recoveries

Mr Lionel Galagedara is in charge of the Recoveries Department of the Bank. He joined the Bank as a Management Trainee and counts over 34 years of service at the Bank. His variety of experience covers the areas of Channel Management, Retail Banking, Corporate Banking, Project Financing, Credit Administration and Recoveries.

He holds a BCom (Special) Degree from the University of Sri Jayewardenepura and an (LLB) Degree from the Open University of Sri Lanka. He is also an Associate Member of the Institute of Bankers of Sri Lanka and an Attorney-at-Law.

MR AZZAM A AHAMAT

Head of Finance

Mr Ahamat joined People's Bank on 3 January 2017 and has nearly 20 years experience both locally and internationally across strategic financial management, alternate investments, and risk. His prior employers include some of the largest multinational professional service firms and other Tier I service providers across respective market spaces. He is a Fellow Member of the Chartered Institute of Management Accountants (UK), a Fellow Member of the Association of Chartered Certified Accountants (UK) and a Fellow Member of the Institute of Certified Management Accountants of Sri Lanka. He is also a Certified Practising Accountant (AUST.), a Certified Member of the Chartered Institute for Securities & Investment (UK) and the Chartered Institute of Credit Management (UK) and a Technical Specialist of the Institute of Risk Management (UK).

MS KRISHANI NARANGODA

Deputy General Manager - Enterprise Banking

Ms Krishani Narangoda joined People's Bank in 1987 as a Management Trainee and counts over 34 years of service in the Bank. She covered the areas of Branch Banking, Overseas Customer Services, Offshore Banking and Corporate Banking under various management capacities and presently serves as Deputy General

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Manager - Enterprise Banking covers the areas of Commercial Credit, SME, Development Finance, Microfinance, Commercial Banking and Project Financing and Revival Unit.

She holds an Honours Degree (BSc Business Administration with Second Class Upper Division) from the University of Sri Jayewardenepura and Master's Degree in Business Studies from the Faculty of Graduate Studies, University of Colombo. She is also an Associate Member of Institute of Bankers of Sri Lanka and the Sri Lanka Institute of Credit Management. She obtained an Advanced Certificate in Customer Relationship Management from the Postgraduate Institute of Management at University of Sri Jayewardenepura.

She was appointed as a Board of Director of RDB from December 2021. During her banking career she has participated in various banking/ management programmes both locally and internationally. She is a registered examiner of Institute of Bankers of Sri Lanka.

MS P S J KURUKULASOORIYA

Deputy General Manager - Strategic Planning, Performance Management and Research

Ms Jayanthi Kurukulasooriya joined the Bank as a Management Trainee in 1994 and counts over 27 years of experience in the banking field. Her experience mainly encompasses in the areas of Branch Banking, Credit, Staff Training, Human Resources Development, Credit Administration, Channel Management and Retail Banking. Prior to joining the Bank, she has gained experience as a Senior Assistant Accountant at the Road Construction and Development Company.

She holds a BSc Business Administration (Special) Degree with a Second Class Upper Division (Honours) from the University of Sri Jayewardenepura and Master's Degree in Business Administration (MBA) from the University of Colombo. She is a Fellow Member (FIB) of the Institute of Bankers of Sri Lanka, a member of AAT Sri Lanka, a Licentiate member of The Institute of Chartered Accountants of Sri Lanka and holds a Diploma in Human Resource Management (Dip HRM) as well.

She was able to enhance the Bank's image by winning three Gold Medals at the Convocation (1997) of Institute of Bankers of Sri Lanka for obtaining maximum number of distinctions, completing examination within two consecutive years and obtaining highest aggregate marks at the Intermediate and Final Examinations, which is still an undefeated record.

MS ROSHINI WIJERATHNA

Deputy General Manager - Risk Management

Ms Roshini Wijerathna is in charge of the Risk Management and Credit Control functions of the Bank. She joined the Bank in 1990 as a Management Trainee and counts over 31 years of service in the Bank out of which over 26 years of experience in the Bank's Treasury. She deputised the Primary Dealer Unit of the Bank since 2003 and the Treasury later on prior to moving to the area of Risk Management in 2017. She plays a key role in strengthening the Bank's Risk Management processes.

She holds a Bachelor of Science (Physical Science) with a Second Class Upper from University of Colombo, a Master of Business Administration (in Finance) from University of Colombo and a Diploma in Treasury and Risk Management from IBSL. She has obtained a distinction for ACI Dealing Certificate - ACI, Financial Markets Association and is an Associate Member of the Institute of Bankers of Sri Lanka.

She is a past President and Secretary of the Association of Primary Dealers and currently a member of the Sri Lanka Forex Association and Association of Professional Bankers and an EXCO member of the Association of Banking Sector Risk Professionals. She serves as a member of the Governing Board of the Institute of Bankers of Sri Lanka.

MS NIPUNIKA WIJAYARATNE

Deputy General Manager - Transaction Banking

Ms Nipunika Wijayaratne serves as the Deputy General Manager of Transaction Banking, counting over 31 years of experience in banking, having joined the Bank in 1990 as a Management Trainee. She holds a BSc Degree in Agriculture from the University of Peradeniya and an MBA in Finance from University of Colombo.

She has experience in Trade Services and Correspondent Banking and prior to joining the Bank, she served in the private sector. She is an Associate Member of the Institute of Bankers of Sri Lanka. She is also an Executive Committee member of International Chamber of Commerce Sri Lanka and an alternate member of the Governing Board of the Institute of Bankers of Sri Lanka.

MS KUMARI SENARATNE

Deputy General Manager - Corporate Banking

Ms Kumari Senaratne joined People's Bank in 1987 as a Management Trainee and possesses 34 years of experience in the Banking and Finance industry, with specific exposure to International Banking operations, Commercial Credit, Retail Banking, and Corporate Banking under various capacities. She currently manages an exposure of LKR 1 Tn. which comprises state-owned enterprises, private sector corporate and offshore companies.

She has contributed immensely by conducting several training programmes

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on areas of credit management and credit structuring, service excellence, trade finance etc. During her career, she has also participated in various programmes both local and overseas.

She is an Associate Member of the Institute of Bankers of Sri Lanka and Sri Lanka Institute of Credit Management. She holds a Master's Degree in Business Studies from University of Colombo and a Bachelor of Science (Special) degree in Business Administration from the University of Sri Jayewardenepura.

MR LALITH WITHANA

Deputy General Manager - Banking Support Services

Mr Lalith Withana joined People's Bank as a Management Trainee in 1990 and counts over 31 years of service. He holds a Second Class (Lower) Degree in BSc (Agriculture) from the University of Peradeniya, Master of Business Administration from University of Colombo and Postgraduate Diploma in Management from University of Sri Jayewardenepura.

He is a Fellow Member of the Institute of Bankers of Sri Lanka and has published books enabling employees to face the internal promotion examinations professionally and fluently. He has been serving as an Examiner since 2010 for the Institute of Bankers of Sri Lanka.

He has total of nine years of experience in Executive and Corporate Management positions and has gained extensive exposure in various management level capacities in the branch network of the Bank, Corporate Banking Division, Human Resource Department, Investigation and Inquiries Department and Credit Recoveries Department.

He has been appointed as the Deputy General Manager (Banking Support Services) since 2020 heading six units including Bank's Procurements, Transport, Security, and two Engineering Services Departments, and Printing Unit. During this period he was able to lead the COVID-19 Recovery Team efficiently giving protection and immense service to the welfare of all Bank Staff Island-wide.

MR CHANAKA WANIGASOORIYA

Chief Information Officer

Mr Chanaka Wanigasooriya counts over 35 years of IT industry experience in Banking and Finance, Retail, FMCG, Manufacturing, Agriculture, Restaurants, Healthcare and e-commerce covering several countries in Asia Pacific and Oceania regions, including Sri Lanka, Australia, Myanmar and Solomon Islands. His banking domain experience in digital transformation for financial inclusion boasts over 25 years.

He holds a Master's Degree in Business Administration from Australian Institute of Business and a Chartered Engineer registered with Engineering Council UK. He also holds Chartered IT Professional offered by the British Computer Society and several other industry related certifications.

MR K A NIHAL

Deputy General Manager - Human Resources (Actg.)

Mr K A Nihal joined the Bank in year 1994 as a Management Trainee and he counts over 28 years of experience in the Bank, covering the Branch Operations, Information Technology, Treasury and Human Resources aspects.

Mr Nihal is currently overseeing the duties as the Deputy General Manager - Human Resources of the Bank. He holds a Bachelor of Management (Special) second Upper degree offered by the University of Sri Jayewardenapura. He has the Professional Banking qualification Diploma in Banking and Finance of Institute of Bankers of Sri Lanka. Mr Nihal also possesses a Certificate on Treasury and Foreign Exchange Operations.

MS PREETHIE KATULANDA

Additional Chief Law Officer

Ms Preethie Katulanda is an Attorney-at-Law, who possessed 28 years experience in active practice in legal profession. She holds a Master's Degree in Business Management in Human Resources Management [MBA (HRM)] from the University of Colombo. She has also successfully completed the professional qualification in Human Resource Management from the Institute of Personnel Management (IPM).

Ms Preethie Katulanda joined People's Bank on 1 December 2021. She commenced her career in legal profession from People's Bank as a legal intern. She has well nearly two decades of work experience as an individual practitioner as well as a corporate sector member and out of which 17 years in the corporate sector having worked in Legal Division being a co-management team member attached to finance sector - business establishments, which are monitored by the Central Bank of Sri Lanka and has served positions of Senior Manager, Asst. General Manager and lastly the Deputy General Manager - Legal in the said establishments.

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EXECUTIVE MANAGEMENT

Front row left to right: **Ms Sriya Galapaththi, Mr A U A Anzar, Ms Anoma Mudduwa, Ms Samanthi Senanayake, Ms Nilmini Premalal, Mr Wickrama Narayana, Mr A S M W Kumarasiri, Ms Gerty Ukwatta, Ms Rohini Madurawala**

Back row left to right: **Mr R Ravikaran, Mr Mangala Kariyawasam, Mr Saman Samarakoon, Mr Anura Dissanayake, Mr Thilak Dharmananada, Mr Jayanath Dias, Mr Nalaka Wijayawardana, Ms Ganga Senanayake, Ms Thushari Hewawasam**

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Front row left to right: **Mr W A Wasantha Kumara, Mr T M W Chandrakumara, Mr Lakmal Jayarathne, Ms Aruni Liyanagunawardana, Ms Dhammika Dasanayake, Ms Shameela Loku Kaluge, Ms N A C W K Nissanka, Mr E A M Dissanayake, Mr Prasad Ariyawansa**

Back row left to right: **Ms Champa Gamage, Mr L U L Alwis, Ms Virajini Munasinghe, Mr Naleen Pathiranage, Mr D M Manjula Dissanayake, Mr P G A C Perera, Mr Nalin Perera, Mr T G S P Kumarasiri**

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CHIEF MANAGERS

MR Y K RAJAPAKSE
Chief Manager - Engineering Services
Engineering Services Department

MR M M A RIZMI
Chief Manager - Audit
Internal Audit Department

MS A B D M CRISHANTHI
Chief Manager
Personal Banking Department

MR W M T ROHAN
Regional Manager - Galle R.H.O.

MR A S K GANGABADAGE
Chief Manager - Supplies
Supplies and Stores Department

MR N K WIMALASIRI
Chief Manager - Internal Audit Department

MR S L M A S SAMARATHUNGA
Regional Manager - Colombo North R.H.O.

MS K SUBASINGHE
Chief Manager - Corporate and Inst.
Banking Division

MR D M KAPILA
Regional Manager - Kandy R.H.O.

MR A JAYAASITH
Chief Manager - Information Technology
Department

MR M S C P T MARASINGHE
Chief Manager - People's Card Centre

MS W A L WEERASOORIYA
Chief Manager - Risk Management and
Credit Control

MS T N RUBASINGHA
Senior Law Officer - Matara R.H.O

MS S M D KUMARI
Senior Law Officer - Anuradhapura R.H.O.

MS Y K ATHAUDA
Senior Law Officer - Land Redemption
Department

MS S D N PREMADASA
Senior Law Officer - Colombo North R.H.O.

MS P R K N FERNANDO
Senior Law Officer - Legal Department

MR I K G C K B IHALAKORALA
Chief Manager - Small and Medium
Enterprises Department

MS V P ABEYRATNE
Chief Manager - Corporate and Inst.
Banking Division

MR H C K GUNAWARDENA
Maintenance Engineer - Maintenance
Department

MS H M P S K HERATH
Chief Manager - Finance and Management
Accounting Department

MR K K N PRIYANTHA
Chief Manager - Investigation
and Inquiries - Investigation and
Inquiries Department

MR G R S KODAGODA
Regional Manager - Gampaha R.H.O.

MR I K INDIKA
Regional Manager - Matara R.H.O

MS V KANAKASABEI
Regional Manager - Wanni R.H.O.

MS R ARUNASALAM
Chief Manager - Overseas Customer
Services

MR N SRISKANTHA
Regional Manager - Trincomalee R.H.O.

MR D M D DISSANAYAKA
Regional Manager - Kurunegala R.H.O.

MR K KODEESSWARAN
Regional Manager - Jaffna R.H.O.

MS W D PIYASEELI
Chief Manager - Internal Audit Department

MS A M V D L ADIKARI
Regional Manager - Matale R.H.O

MS I RATNAYAKE
Regional Manager - Anuradhapura R.H.O.

MR R L J PEIRIS
Chief Manager - Credit Review Department

MR E P A SISIRA KUMARA
Regional Manager - Batticaloa R.H.O.

MS A G JAYASENA
Chief Manager - Risk Management and
Credit Control

MS L N A N K NISSANKA
Chief Manager - Commercial Credit
Branch Credit Department

MR G H U S GUNARATNE
Chief Manager - Training
Staff Training College

MS S S PERERA
Chief Manager - Corporate and Inst.
Banking Division

MR H D GUNARATHNA
Regional Manager - Ampara R.H.O

MR H M U H HERATH
Regional Manager - Ratnapura R.H.O

MR M H M RIZAN
Chief Manager - Audit
Internal Audit Department

MR M S KANAKKAHEWAGE
Regional Manager - Colombo South R.H.O

MR P A P R S PERERA
Regional Manager - Kegalle R.H.O.

MR B S RANATUNGAGE
Regional Manager - Colombo Outer R.H.O.

MS D E H WEERASURIYA
Chief Dealer - Treasury Unit

MS C V EBENEEZER
Chief Dealer - Treasury Unit

MS D S LAWRENCE
Senior Law Officer - Kegalle R.H.O.

MS A D R MENDIS
Senior Law Officer - Corporate and INST.
Banking Division

MR J JAYAWARDENA
Senior Law Officer - Credit Recoveries
Department

MS V K SUBASINGHE
Senior Law Officer - Legal Department

MR A M T N DE SILVA
Chief Manager – IT Infrastructure and
Operations, Information Technology
Department

MS K A A S PEIRIS
Regional Manager - Puttalam R.H.O

MS L P N GUNAWARDHANA
Regional Manager - Hambanthota R.H.O.

MS M T S N SAMARASEKARA
Chief Manager - Supplies
Supplies and Stores Department

MS W D P D BUDDHIKA
Regional Manager - Kalutara R.H.O.

MR D S P N RATHNAYAKA
Regional Manager - Monaragala R.H.O.

MS W W T R FERNANDO
Chief Dealer - Treasury Unit

MR A M M S M RUWAIS
Chief Manager - Internal Audit Department

MS P G N P LIYANAGE
Regional Manager - Polonnaruwa R.H.O.

MS M V P PEIRIS
Regional Manager - Nuwara-Eliya R.H.O.

MS G A A RANASINGHE
Chief Manager- Human Resources
Human Resources Department

MR G D N L POTTHEWELA
Regional Manager - Badulla R.H.O.

MR K M C B SENARATNE
Chief Security Superintendent,
Security Department

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DRIVING VALUE CREATION

We are continuously looking for ways in which to improve our business models and remain confident in our ability to adapt to any situation.

OPERATING ENVIRONMENT

The outbreak of the COVID-19 pandemic has fundamentally changed the environment in which we operate, and we continue to feel the effects and restrictions brought on by the pandemic. COVID-19 has had a massive socio-economic impact on all countries, with both developed and developing economies feeling the sweeping repercussions. However, breakthroughs in vaccine rollouts in 2021 have somewhat cushioned the blow, reducing social and economic impacts across the globe. Therefore, it is important that we seize opportunities that will allows us to sustain growth whilst shifting our business models to stay viable in a new environment.

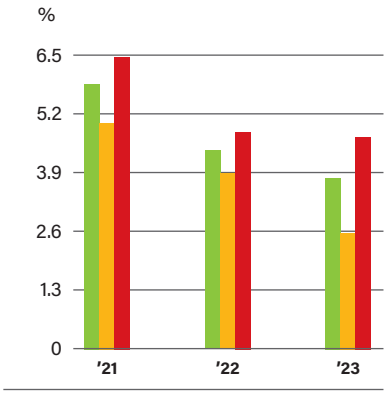
THE GLOBAL ECONOMY IN RECOVERY

During 2021, the global economy grew sharply by 5.9% even while the pandemic continued to pose challenges, thus depicting an upward trajectory when compared to the 3.3% growth in 2020. This rate is expected to moderate to 4.4 % in 2022 (World Economic Outlook Update of the International Monetary Fund, January 2022). Asia emerged as the best performing region recording a 7.2% growth, propelled mainly by the 8.1% and 9.1% positive growths in China and India respectively.

Regionally, most Emerging Market and Developing Economies (EMDE) regions in 2022-23 are projected to revert to the average rates during the decade prior to the pandemic, though annual output is set to remain below the pre-pandemic trend in all EMDE regions. This differs with the expectation set on advanced economies where the gap is predicted to close, pointing to an uneven pace of recovery across and within regions.

The expectation is that on a per-capita basis, the recovery is most likely to leave behind economies that experienced the deepest contractions in 2020, such as tourism-reliant island economies. As such, either half or more of the economies in East Asia, the Pacific, Latin America, the Caribbean, the Middle East, North Africa, and two-fifths of economies in Sub-Saharan Africa may still be below their 2019 per capita GDP levels by 2023.

ECONOMIC GROWTH PROJECTION



Source: World Economic Outlook Update – January 2022, International Monetary Fund

The spread of the new Omicron COVID-19 variant has seen the re-imposition of restrictions across the world and increasing volatility in the financial markets, thereby leaving the global economy in a much weaker position than previously expected.

The impact of Omicron could lead to labour shortages and apply greater pressure on hospitals whilst also bringing tighter and longer lasting restrictions beyond the first quarter of the year. It may also intensify shipping problems and aggravate imbalances of supply and demand. If this materialises, global growth could fall below the predicted levels. Low vaccination rates in many countries also pose further risks of continued reinfection and emergence of new variants.

Inflation continued to increase throughout the second half of 2021. The upsurge in food and energy prices and the disruption of supply led to a higher and broader level of inflation than was previously expected. Inflation is expected to remain high in 2022, at an average 3.9% in advanced economies and 5.9% in EMDEs. In line with the overall situation, global trade is expected to slow down over the next two years.

As advanced economies lift their policy rates, there may be risks to global financial stability. This will put specific pressure on the economies of EMDEs whose debt levels have increased significantly in the past two years. In order to curb inflation pressures, monetary policy in many countries will need to remain controlled and tight, while fiscal policy will need to prioritise health and social spending. In this environment, international cooperation will be essential to enable access to liquidity and expedite the orderly restructuring of debt where necessary.

To counter the impact of the pandemic and offset the massive losses and debts of the last two years, higher growth and stronger tax revenues will be necessary in many countries. This will demand higher long-term growth, which in turn will require far-reaching structural reforms and remedial measures.

The lockdowns, closures, and social distancing of the last two years has interrupted the education of many

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children, especially in low-income countries, where alternative teaching methods are not so readily available. Unless these gaps and losses in the learning process are rectified, there could be long-lasting effects on the lives of individuals, and on productivity and growth across economies around the globe. The labour market too has been re-shaped by the pandemic. Countries around the world will need to adapt to this reality and re-train their workers accordingly. In this context, the pandemic provides a unique opportunity to adopt new technologies and enhance digitalisation.

The consequences of climate change continue to pose grave risks to the global economy and its recovery. The persistence of floods, droughts, and wildfires throughout 2021 underlines the gathering danger. The future suggests that major natural disasters are very likely and that they will threaten economies in the developed and developing world. This would also place tremendous pressure on the global supply chain. The impact would be greatest in those countries with low income and low vaccination rates.

As the pandemic continues into its third year, the need for an effective global health strategy is imperative. To reduce the danger of further COVID-19 variants, the world requires increased production of vaccines, better delivery systems, and a fairer system of distribution.

The impact of the ongoing war in Ukraine and the associated sanctions imposed on Russia by the United States, European countries and others would also have a substantial impact on the global economy and financial markets, with significant spillovers to other countries. Even as the crisis is creating an adverse shock to both inflation and activity in many nations amid already elevated price pressures, the monetary authorities will need to calibrate appropriate responses by carefully monitoring the pass-through of rising international prices to domestic inflation. The fiscal policy would need to support the most vulnerable households, to help offset rising living costs. As the world economy recovers from the pandemic, the crisis is expected to create complex policy tradeoffs, further complicating the policy landscape.

THE SRI LANKAN ECONOMY – CHALLENGING CIRCUMSTANCES

The Sri Lankan economy is expected to have recorded a growth of approximately 4.0% in 2021. The domestic economic activity that was disrupted with the outbreak of the third wave of the COVID-19 pandemic and related mitigative measures is estimated to have contracted by 1.5% YoY, during the third quarter of 2021. However, towards the latter part of 2021, economic activity seems to have gathered momentum as indicated by several leading indicators that point towards activity returning to normalcy. The Government took proactive measures to ensure the long-term stability of the Sri Lankan economy and conducted a successful vaccination drive whilst implementing effective COVID-19 protocols to curb the spread of the virus.

External performance

With the normalisation of global economic activity, there was a notable improvement in export performance. The significant increase in imports is underpinned by the increased demand for intermediate goods and consumer goods and availability of low-cost credit. As a result, the trade deficit widened to pre-pandemic levels in 2021. The developments of the tourism sector seemed promising with the influx of tourists.

Workers' remittances amounted to USD 5,491 Mn. in 2021, recording a 22.7% decline YoY compared to USD 7,104 Mn. in 2020. Although there was a reduction in the inflow of workers' remittances in the latter half of 2021, a rebound in workers' remittances is expected in the period ahead as worker migrations have increased notably and measures have been taken to combat illegal money transfers, while encouraging remittances through formal channels via several incentives. Total departures for foreign employment were 117,952 in 2021 compared to 53,875 in 2020. Majority were under the categories of skilled (38,333) and unskilled (30,431), followed by domestic aid (29,493).

The Sri Lanka rupee depreciated by 7.0% against the US dollar in 2021. The gross official reserves as of end 2021 was estimated at USD 3.1 Bn. The Government and the Central Bank have been pursuing avenues to attract fresh foreign exchange inflows while facilitating continued domestic economic activity. However, Sri Lanka's foreign reserves position is further exacerbated by the recent war in Ukraine, in terms of supply chain disruptions and rising commodity prices, as well as in the domestic front, particularly in the form of power and supply interruptions. Addressing these disruptions immediately is imperative to ensure the continuation of uninterrupted domestic production and the momentum in exports, along with the efforts to strengthen the production economy through well-targeted growth policies. Sri Lanka's total exports to both Russia and Ukraine amounted to USD 179 Mn. equivalent to 1.4% of total exports. Tea, which is the main export from Sri Lanka to these two nations constitutes 10.2% of Sri Lanka's total tea exports. The total imports from Russia and Ukraine which mainly include base metals, wheat and

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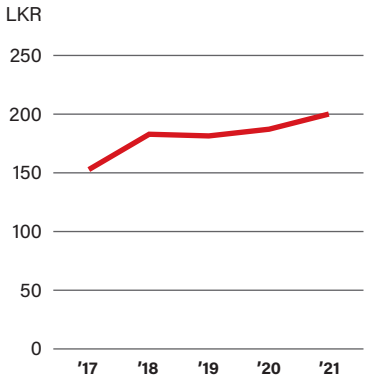
petroleum products amounted to USD 282 Mn. accounting for 1.4% of total imports of Sri Lanka.

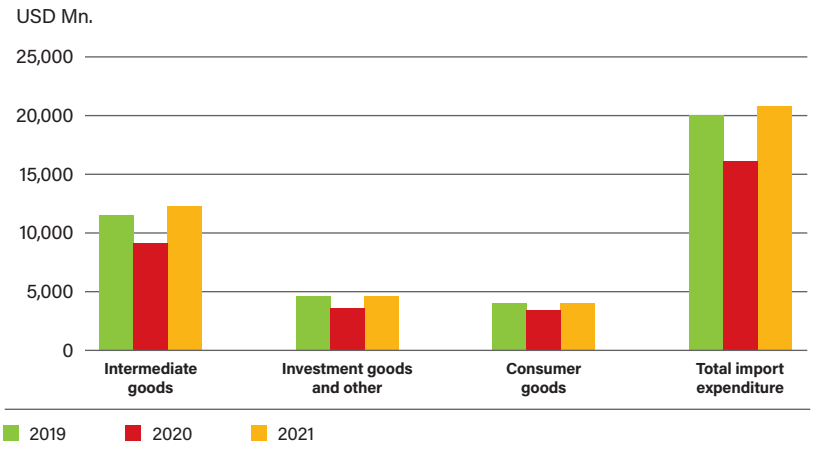
Although earnings from merchandise exports continued to record over USD 1 Bn. for the seventh consecutive month in December 2021, expenditure on imports continued to increase at a higher pace. Despite the decline in expenditure on personal vehicles, expenditure on the import of consumer goods increased in 2021 YoY mainly due to higher imports of non-food consumer goods, driven by medical and pharmaceuticals, telecommunication devices and home appliances. Expenditure on food and beverages also increased in 2021. Import expenditure on intermediate goods increased significantly during the year under review mainly due to the higher expenses incurred on imports of fuel and other articles.

MOVEMENT OF THE SRI LANKAN RUPEE AGAINST THE US DOLLAR



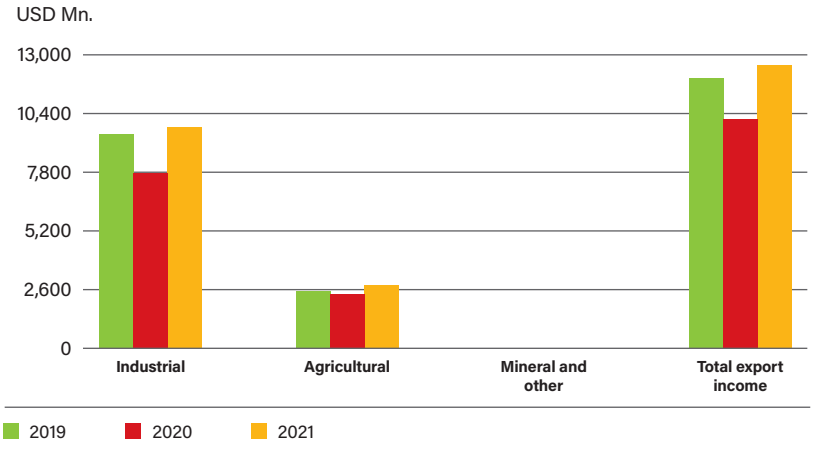
Source: The Central Bank of Sri Lanka

IMPORT PERFORMANCE



Source: The Central Bank of Sri Lanka

EXPORT PERFORMANCE



Source: The Central Bank of Sri Lanka

As a result, the deficit in the trade account widened in 2021 to USD 8,136 Mn. compared to USD 6,008 Mn. in 2020.

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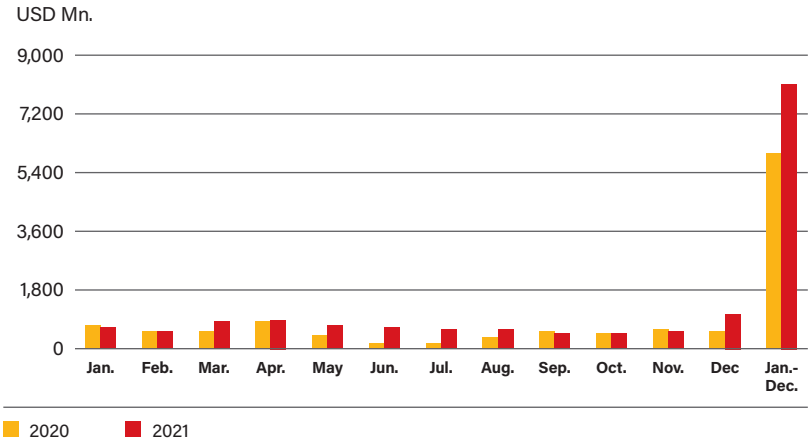
TRADE DEFICIT



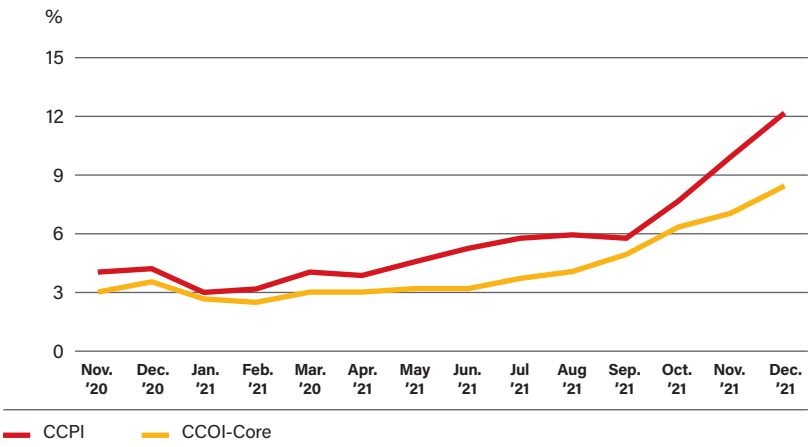
Source: The Central Bank of Sri Lanka

There has been a notable increase in tourist arrivals thus far from end 2021. However, the recent geopolitical tensions may affect the tourism industry to some extent.

INFLATION

Headline inflation as measured by the Sri Lanka Colombo Consumer Price Index (CCPI) accelerated during recent months, exceeding the set target of 4-6%. The key drivers of the rising inflationary pressures domestically were supply side disruptions, increasing global commodity prices, associated domestic administrative price adjustments and food supply disruptions. The acceleration in core inflation reflects the firming up of aggregate demand conditions in the economy fueled by the accommodative monetary conditions and fiscal measures that were in place since the onset of the pandemic. The inflationary pressures are expected to remain elevated in the near term. The pressures emanating from the build-up of aggregate demand require proactive measures to anchor inflation expectations and retrace inflation to the desired levels over the medium-term.

INFLATION



Source: Department of Census and Statistics

MARKET INTEREST RATES

Credit extended to the private sector that slowed down during September and October 2021, picked up recently reflecting the increased credit flows to finance imports. The credit obtained by the public sector from the banking system also expanded, particularly the net credit to the Government. Although the growth of broad money (M2b) remained elevated by end November 2021, a slowdown was observed due to the decline in net foreign assets (NFA) of the banking system. Market interest rates are observed to be adjusting upwards following the monetary tightening measures. However, the adjustment in deposit interest rates remains sluggish, and has been inadequate to attract deposits into the banking system from the excessive currency in circulation. The banks and financial institutions have been urged to make the required adjustments to deposit interest rates in order to promote savings. The yields on government securities increased notably to reflect market conditions in view of the higher financing requirement of the Government.

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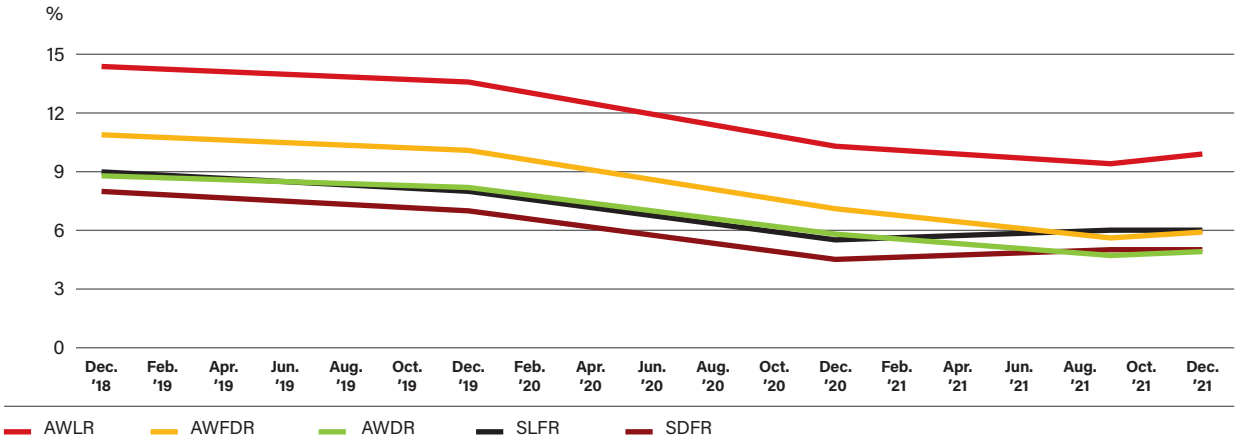
MOVEMENT OF MARKET INTEREST RATES



Source: The Central Bank of Sri Lanka

BUILDING A STRONG BANKING SECTOR

The financial system remained resilient amid challenging domestic and global macroeconomic conditions. The banking sector exhibited expansion in terms of key indicators with adequate levels of capital.

The sector has largely withstood the repercussions of the pandemic and the resulting economic slowdown. The timely and proportionate assistance by the Central Bank of Sri Lanka (CBSL) has been a crucial factor, as has the rapid recovery of the economy, which has been supported by pent up demand and fiscal and monetary stimulus.

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KEY INDICATORS OF THE BANKING SECTOR

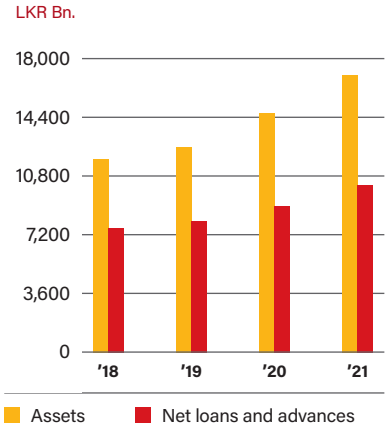
	2018	2019	2020	*2021	YoY change (2021)
Assets and Liabilities (LKR Bn.)					
Assets	11,794	12,523	14,666	16,924	15.4%
Net loans and advances	7,580	7,961	8,970	10,180	13.5%
Net non-performing advances	150	220	216	168	-22.1%
Core capital (tier 1 capital)	891	928	1,000	1,084	8.4%
Deposits	8,492	9,162	11,141	12,671	13.7%
Borrowings	1,763	1,679	1,692	2,181	28.9%
Profit before tax	195	172	190	259	36.4%
Profit after tax	126	111	136	198	46.0%
Capital adequacy (%)					
Core capital (tier 1 capital) adequacy ratio	13.1	13.0	13.0	13.2	
Total capital adequacy ratio	16.2	16.5	16.5	16.5	
Net non-performing advances ratio	14.5	19.5	17.2	11.5	
Asset quality (%)					
Gross non-performing advances ratio	3.4	4.7	4.9	4.5	
Net non-performing advances ratio	2.0	2.8	2.4	1.7	
Specific provision to net non-performing loan ratio	43.1	42.4	51.7	64.0	
Profitability (%)					
Return on assets (ROA) before tax	1.8	1.4	1.4	1.6	
ROA after tax	1.1	0.9	1.0	1.2	
Return on equity (ROE)	13.2	10.3	11.4	14.5	
Efficiency ratio	50.0	52.7	51.8	48.1	
Staff costs to operating expenses	44.1	44.6	46.4	45.2	
Interest margin	3.6	3.6	3.1	3.4	
Liquidity indicators (%)					
Credit to deposit ratio	90.6	88.7	82.6	82.7	
Liquid assets ratio	27.6	31.0	37.3	33.8	

**Provisional data*

Source: The Central Bank of Sri Lanka

The assets growth of the banking sector increased by 15.4% YoY to LKR 16,924 Bn. in 2021 compared to LKR 14,666 Bn. in 2020. The sector has operated with an adequate liquidity buffer above the minimum regulatory requirement of 20%. Net loans and advances swelled by 13.5% to LKR 10,180 Bn. compared to LKR 8,970 Bn. in 2020.

BANKING INDUSTRY ASSETS AND NET LOANS



Source: The Central Bank of Sri Lanka

The expansion in assets was largely funded by deposits, that recorded a growth of 13.7% YoY, from LKR 11,141 Bn. in 2020 to LKR 12, 671 Bn., in the year under review. The main constituent of deposits was time deposits which accounted for 60.6% of total deposits in 2021.

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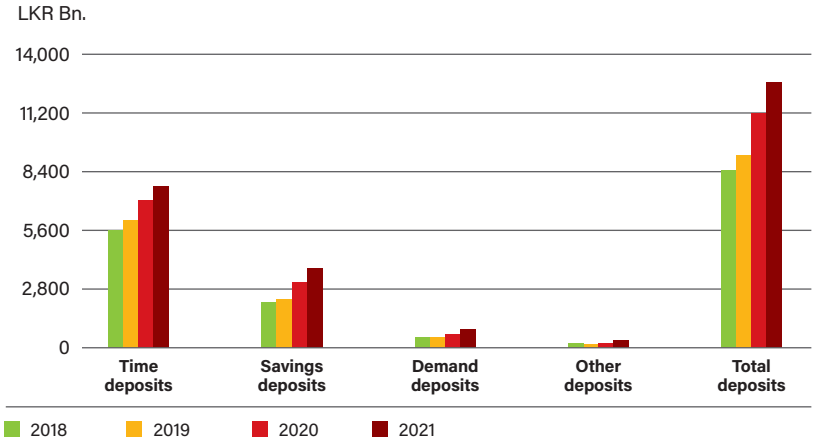
BANKING INDUSTRY DEPOSITS



Source: The Central Bank of Sri Lanka

The asset quality improved as indicated by the 22.1% decline in net non-performing advances in 2021. The NPLs are likely to increase with the cessation of the moratorium. However, the banks have already absorbed a considerable portion of the impact through impairment.

The profit after tax of the banking sector recorded a growth of 46.0% to LKR 198 Bn. in 2021 compared to LKR 136 Bn. in 2020.

The banking sector operated with a Tier 1 capital ratio of 13.2% and a total capital ratio of 16.5%, well above the Basel III requirements. Looking to the future, the banking sector needs to be cautious of the direct and indirect impacts of economic slowdown. It also needs to beware of the impact of the debt moratorium, which although it may benefit the public, could place the banks in a challenging position.

ADAPTING THE BANKING SECTOR FOR SUCCESS

The pandemic has radically changed the environment in which the banking sector operates. The resulting changes in the ways of living and working has forced individuals and businesses to resort to technology in order to survive. In the banking sector, it has given great momentum to digitisation and all banks have made significant efforts to familiarise their clients with digital platforms. Employees have had to adapt to new working environments as well, whether it be social distancing or working from home.

As digitisation has become increasingly crucial for the banking sector, its operations have also become more vulnerable. COVID-19 has led to an upsurge in the risk of cyber-attacks and security breaches. Cyber security has become imperative and there is a great need for a centralized, national solution.

Cost reduction has been an overriding concern for the banking sector. Great efforts have been made to keep costs under check, to reduce cost-to-income ratios across the board and bring in economies of scale. Despite this, there have not been any significant retrenchment of staff. Instead, the banking sector has chosen to focus on building cost resilience.

Change has been an important and ongoing factor. The banking sector has had to restructure operations and processes to facilitate and enhance cash flow. At the same time, it has been sensitive to emerging trends and quickly responded to customer behaviour. Consumer spending has been drastically affected by both the decrease in disposable income and the psychological impact of COVID-19. Customer behaviour has also changed and with it, as have customer expectations.

CONFIDENT IN THE FUTURE

Whilst the macro-economic environment remains crucial to delivering our financial ambitions, we are continuously looking for ways in which to improve our business models. As such, we remain confident in our ability to adapt to any situation.

We do not only see challenges but are sensitive to significant opportunities arising from the present context as well. Our clients have been increasingly willing and accepting of digitalised banking services, thereby enabling us to be a greener Bank. Transitions in regulatory policies and procedures have been beneficial to the Bank. Growing sustainability requirements have helped us move towards more sustainable banking. We have been able to use Bank leverage to support business growth. We also pride ourselves in proving work environments that support innovation and resilience. Given these overarching positives during a difficult time, we are confident that People's Bank will continue to succeed, whatever the circumstance.

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People's Bank performance compared with the Banking sector

	2021			2020		
	Banking sector	People's Bank	People's Bank Share	Banking sector	People's Bank	People's Bank Share
Assets (LKR Mn.)	16,923,564	2,647,641	15.6%	14,666,264	2,230,119	15.2%
Deposits (LKR Mn.)	12,671,271	2,071,533	16.3%	11,140,932	1,835,099	16.5%
Profit before tax (LKR Mn.)	285,722	30,387	10.6%	189,744	21,227	11.2%
Profit after tax (LKR Mn.)	198,398	23,720	12.0%	135,854	14,175	10.4%
Core capital (Tier I Capital) adequacy ratio (%)	13.2	12.6		13	9.5	
Total capital adequacy ratio (%)	16.5	17.8		16.5	15.5	
Gross non-performing advances ratio (%)	4.5	3.2		4.9	3.3	
Return on assets (ROA) before tax (%)	1.6	1.2		1.4	1.0	
Interest margin (%)	3.4	3.4		3.1	3.0	

Source: The Central Bank of Sri Lanka

Compared to the banking sector, People's Bank has maintained the gross NPL ratio at 3.2% in 2021 which was below the sector average of 4.5%. The Bank's standalone total capital adequacy ratio was 17.8% in 2021 compared to 15.5% in 2020. This not only is an all time high for the Bank, but is also amongst the highest in the banking sector where the average was 16.5% in 2021.

People's Bank accounted for 15.6% of the total asset base and 16.3% of the total deposit base of the banking sector in 2021.

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STAKEHOLDER ENGAGEMENT

GRI 102-40, 102-42, 102-43, 102-44

At People's Bank, stakeholder engagement is key to ensuring responsible, sustainable and balanced decisions are made when implementing our strategic plan. Our stakeholders comprise individuals, groups and organisations that significantly affect or could be significantly affected by our strategy execution and business operations. We provide our stakeholders with frequent opportunities for engagement throughout the year via multiple forums and channels to help shape the direction of our strategy, aligned to their needs and expectations. The feedback and continuous dialogue helps us to improve our products, processes, services and management, and generate competitive, sustainable value for all stakeholders in the immediate, medium and long-term.

KEY STAKEHOLDERS

The key stakeholders of the Bank are determined based on the level of engagement, their impact on our business and involvement in the decision-making process. Frequent and transparent stakeholder engagement enables us to have a clear understanding of our stakeholders' expectations and about the value we can create in our diverse roles as a bank, employer, investor, and responsible corporate citizen.

The table below identifies our key stakeholders and how we engage with them:

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The table below identifies our key stakeholders and how we engage with them:

	Investors		Customers		Employees/Trade unions	
Who they are	The Government and other shareholders		• Retail and MSME clients • Corporate and Institutional • Banking clients • Public sector clients • Brokers and intermediaries		All full-time and part-time ecosystems	
Why they matter to us	To have continued access to capital for the sustainable growth and performance of our business.		To continuously innovate and develop products that meet customer needs, thereby differentiating ourselves from the competition and setting the bar in terms of customer experience and customer satisfaction.		To earn the loyalty and dedication of a team of motivated employees who share the same vision as the Bank, by creating opportunities to grow, be successful and achieve their full potential.	
Key concerns/ expectations	• Consistent economic performance • Environmental, social and governance (ESG) criteria • Sustainable growth • Transparency • Business continuity • Brand reputation and image • Organisational resilience • Cost optimisation • Asset quality		• Research and innovation • Quality of service • Relationship management • Compliance • Affordably of services • Convenience and accessibility • Financial stability of the Bank • Speedy complaint resolution • Health and safety • Stable ratings • Privacy and cyber security		• Health and safety • Flexibility of hybrid working environment • Transparent, fair, and attractive remuneration • Employee development • Employee engagement • Talent pipeline and retention • Career opportunities • Diversity and inclusion • Business continuity • Rewards and recognition • Incentives and benefits	
Channels of engagement and frequency	Frequency	Mode of engagement	Frequency	Mode of engagement	Frequency	Mode of engagement
	Annually	Annual Report	Ongoing	Customer satisfaction surveys	Annually	Performance appraisal
	Quarterly	Financial Statements	Ongoing	Customer networking	Ongoing	Collective bargaining
	Continuous	Corporate website	Ongoing	Corporate website	Ongoing	Multi-level staff meetings
	Ongoing	Written communications, emails, phone calls	Ongoing	Relationship management	Ongoing	Staff induction and orientation
			Ongoing	Financial literacy programmes	Ongoing	Training programmes
			Ongoing	Customer hotline	Ongoing	Group intranet/email
			Ongoing	Social media	Ongoing	Pulse Magazine
Our strategic response	We work with our investors, to deliver robust returns and long-term sustainable value whilst keeping them apprised of our progress and challenges in a timely and transparent manner. *The Annual Report provides all information necessary for a comprehensive assessment of our progress.*		We provide cutting-edge products with speed and convenience to our customers through Self-Banking Units and digital channels. We work towards innovating and evolving our processes to provide an unparalleled customer experience. *Please refer the Customer Capital segment on pages 107 to 115.*		We provide a safe and stimulating working environment that supports personal and professional development through rewards and recognition, career progression, fair remuneration and talent development. *Please refer the Human Capital segment on pages 91 to 106.*	

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	Regulators/Legislators		Suppliers		Communities and environment	
Who they are	• Governments and regulators • Other non-governmental organisations		• Suppliers • Business Partners		Local communities and ecosystems	
Why they matter to us	To ensure ethical operations and prudent risk management across the Bank to attract more funding, finance new client segments, and mitigate potential impacts from future uncertainties.		To nurture and strengthen a sustainable supply chain so that we continue to create shared value, setting the industry benchmark for responsible and sustainable sourcing.		To ambitiously contribute towards achieving the UN Sustainable Development Goals (SDGs) and responsibly playing our part in addressing the most pressing social and environmental issues of today.	
Key concerns/ expectations	• Governance and transparency • Risk management • Industry support for policies • Microfinance and SME development • Research and innovation • Sustainability performance • Regulatory compliance		• Maintaining strong, ethical relationships • Building capability and expertise • Responsible procurement • Responsible sourcing • Operational improvement • Technological advances including digital solutions • Quality of service • New business opportunities • Fair process and fair price		• Future talent pipeline • Social and environmental impact • Prudent water and energy consumption • Waste management • Responsible financing • Green financing • Commitment to community development • Guidance on financial management and business • Climate change • Financial literacy	
Channels of engagement and frequency	Frequency	Mode of engagement	Frequency	Mode of engagement	Frequency	Mode of engagement
	Weekly	Regulatory reporting	Ongoing	Supplier surveys	Ongoing	Press releases, media briefings
	Ongoing	On-site surveillance	Ongoing	Supplier relationships	Ongoing	Corporate website
	Ongoing	Industry forums and meetings	Ongoing	On-site meetings and visits	Ongoing	Public events
	Ongoing	Press releases	Ongoing			Social media
Our strategic response	We maintain good working relationships with governmental authorities through continuous dialogue, meeting of regulatory requirements, and timely submission of relevant information. *Please refer the Value Creation segment on pages 66 to 67.*		We build trusting relationships from which we can mutually benefit and ensure reliable and sustainable supply chains. *Please refer the Business Partner Capital segment on pages 116 to 120.*		We strengthen economic development, enhance social sustainability and ensure environmental protection within our communities. *Please refer the Human Capital segment on pages 91 to 106.*	

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MATERIALITY

Through continuous, year-round engagement across all our stakeholder groups, we gather the feedback and recommendations they provide to identify key topics that are most important to them – issues that are 'material' – and consequently also impact our business. This materiality assessment process is therefore a vital element in determining material matters that have influenced, or may influence our ability to create value over the short, medium and long-term for our stakeholders.

We conduct a materiality assessment annually to determine the content of our review, with due consideration given to significant environmental, social and governance impacts on our business and our stakeholders. The degree of materiality or importance of a topic is assessed by its significance and relevance to the Bank or our stakeholder and its significance. Significance is determined by the probability of occurrence and the magnitude of its impact.

The material topics are presented in line with GRI's reporting principle of materiality, and in relevance to our four strategic themes, all identified capitals and the UN SDGs. A new material theme was added during the year.

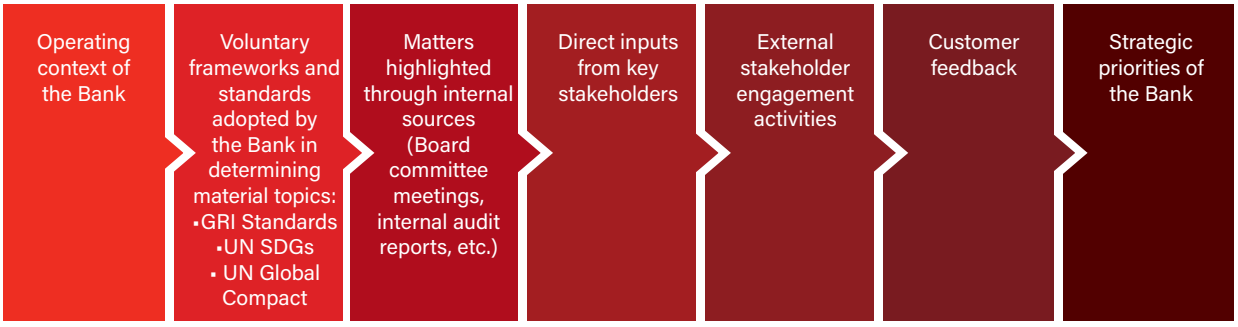
OUR APPROACH TO CREATING SHARED VALUE

At People's Bank, we focus on sustainable value creation by optimally allocating resources to deliver value to stakeholders just as much as we derive value from them. Our strategies and strategic imperatives are formulated based on the outcomes of our materiality analysis. All material topics are managed in alignment with our strategic priorities and responsibilities and are assigned to the respective Business Unit Heads. Resources are allocated based on the degree of risk and opportunities of the material topic. Measuring the performance of our employees and operations against a set of predefined Key Performance Indicators (KPIs) indicates our commitment to achieving these strategic objectives.

The process of monitoring and reviewing ensures we remain focused on addressing the identified material issues with minimum deviations from our strategic direction.

MATERIALITY ASSESSMENT PROCESS

The following aspects guide us to prioritise the material topics of our Bank:



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GRI 102-46, 102-47, 103-1, 103-2, 103-3

The material topics prioritised for inclusion in this report are given below:

No.	Material GRI topic GRI 102-47	GRI standard No.	Reason for materiality GRI 103-1	Capital management/ strategic theme	Management approach GRI 103-2	Evaluation of the management approach GRI 103-3	Relevance to People's Bank	Materiality to stakeholders and topic boundary GRI 102-46					
								Internal	External				
								Employees	Customers	Shareholders	Suppliers	Community	Environment
1.	Financial performance	GRI 201	A strong financial performance strengthens the stability, resilience and growth capacity of the Bank whilst improving brand equity		Increase revenue from all business verticals by leveraging market opportunities and effective cost management to improve bottom-line. Managing risks strategically, reinforcing capital position and strengthening the Bank's balance sheet	Financial Capital (page 72 to 77) Performance of Review (pages 139 to 151) Risk Management Report (page 153 to 183)	✓	✓	✓	✓	✓	✓	✓
2.	Customer experience		Customer experience is crucial to secure a captive market share and strengthen the sustainability of the Bank		Deliver a compelling value proposition to customers by adopting a customer centric approach and facilitating seamless transition to digital banking channels that offer a high customer experience	Manufactured Capital (page 78 to 82) Intellectual Capital (page 83 to 90) Social and Relationship Capital – Customer (page 107 to 115)	✓		✓				
3.	Operational efficiency		Essential to realise better outcomes for all stakeholders of the Bank		Enhance the efficiency of all key operations of the Bank mainly through automation to generate increased value for stakeholders.	Manufactured Capital (page 78 to 82) Intellectual Capital (page 83 to 90) Social and Relationship Capital-Customer (page 107 to 115) and Business Partner (page 116 to 120) Human Capital (page 91 to 106) Natural Capital (page 131 to 137)	✓	✓	✓	✓			
4.	Employee productivity		Improved employee productivity is essential to drive the Bank's strategic agenda and performance		Invest in employee training and development and nurture a highly engaged team of employees	Human Capital (page 91 to 106)	✓	✓					

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5.	Digital leadership		Achieve a competitive edge, deliver exceptional customer outcomes resulting in enhanced brand equity and a strong market position		Continuous and ongoing investment in digitalisation to maintain our position as the most digitalised and technologically advanced Bank in the Nation and deliver increased value to our economy and all our stakeholders	Manufactured Capital (page 78 to 82) Intellectual Capital (page 83 to 90) Social and Relationship Capital-Customer (page 107 to 115)	✓		✓	✓			✓
6.	Risk and governance		Enhance the integrity, trust, and stability of the Bank	Risk Management and Corporate Governance	Strengthen the sustainability of the Bank by adopting a proactive approach to risk management following sound governance practices	Risk management report (page 153 to 183) Corporate governance report (page 185 to 206)	✓	✓	✓	✓	✓	✓	✓
7.	Compliance	GRI 416, 417, 418	Elevate Bank's reputation and strengthen brand equity	Corporate Governance	Ensure full compliance with all applicable laws and regulations by maintaining strong governance and oversight framework	Social and Relationship Capital – Customer (page 107 to 115)	✓	✓	✓	✓	✓	✓	✓
8.	Talent management	GRI 410, 402, 403, 404, 405	A team of highly-engaged, motivated, and committed team of employees deliver a responsible and ethical service		Recruit, retain, and develop a high performing team of employees to implement the Bank's strategic agenda	Human Capital (page 91 to 106)	✓	✓					
9.	Responsible lending		Secure a sustainable future by promoting best practices across the business activities		Promote financial inclusion and uplift the standard of living of communities.	Social and Relationship Capital - Customer (page107 to 115)	✓		✓	✓		✓	✓

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10.	Anti-corruption	GRI 205	Contribute towards an ethical society through compliance	Corporate Governance/	Nurture a stringent, ethical and compliant culture within our Bank to support our people to be at their best, conducting themselves with integrity adhering to highest standards.	Human Capital (page 91 to 106)	✓	✓	✓	✓	✓	✓	
11.	Socio-economic impacts	GRI 202, 203, 413	Align with national priority issues	Community Capital/	Reduce social inequalities across Sri Lanka by supporting the socio-economic progress of communities.	Social and Relationship Capital – Community (page 125 to 130)	✓	✓	✓	✓		✓	
12.	Environmental impact of the business	GRI 302, 305, 306	Contribute towards a sustainable green environment through sustainable business practices		Mitigate our overall carbon footprint by investing in green infrastructure and renewable energy sources, implementing effective energy, water and waste management measures, and incorporating environmental considerations into our financing and investment decisions.	Natural Capital (page 131 to 137)	✓						✓
13.	Supplier value creation	GRI 204	Minimise the risk of business disruptions due to a breakdown in the supply chain and thereby strengthen supply value creation		Strengthen long-term, mutually beneficial business partner relationships and create shared value through compliance, transparency, ethical business practices and timely payments.	Social and Relationship Management Capital – Business Partner (page 116 to 120)	✓				✓		

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								Internal	External				
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14.	Brand equity		Increase market share and achieve a competitive edge by strengthening the brand reputation		Grow our brand equity through digitalisation leadership, innovation, strong governance, customer service excellence, effective customer relationship management, strong market presence and stability.	Intellectual Capital (page 83 to 90)	✓	✓	✓	✓	✓	✓	
15.	Channel management		Deliver an exceptional customer experience through seamless and sustainable delivery channels		Upgrade and continuously enhance the quality and efficiency of our delivery channels	Social and Relationship Capital – Business Partner (page 116 to 120)	✓		✓		✓		
16.	Customer access		Improving customer convenience and satisfaction through multichannel accessibility		Enhance customer experience by offering multiple channels of banking that improve customer convenience	Social and Relationship Capital – Customer (page 107 to 115) Manufactured Capital (page 78 to 82)	✓		✓			✓	
17.	Training and development	GRI 404	Develop a high performing team of employees who are capable of implementing the strategic plan of the Bank to deliver an outstanding stakeholder experience		Build industry-leading capabilities and enable our employees to realise their full potential by investing in their training and development as well as the infrastructure necessary to implement such training and development programmes	Human Capital (page 91 to 106)	✓	✓		✓			
18.	Customer health and safety	GRI 416	Ensure a safe and healthy work environment that is secure, motivating, and engaging		Eliminate any adverse impacts to health and safety of our customers by ensuring our business premises are safe and our products and services are safe	Social and Relationship Capital - Customer (page 107 to 115)	✓		✓		✓	✓	

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								Internal	External				
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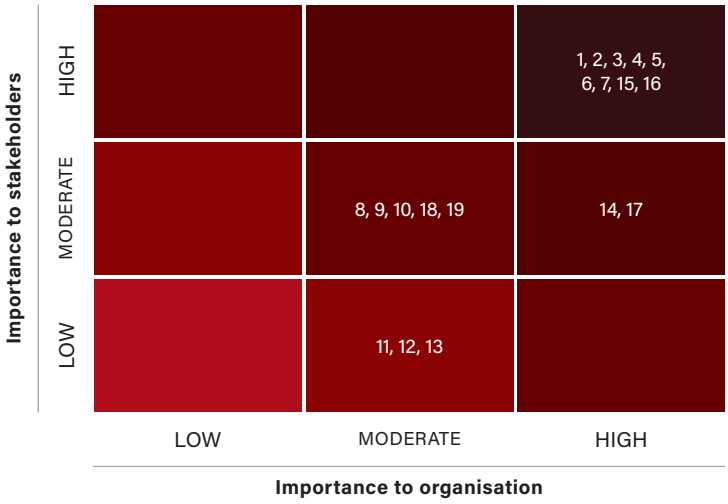
19.	Customer service enhancement through remote channels		Addressing the accelerated adoption of digital channels by customers due to COVID-19		Providing customers a range of digital banking channels to conduct their banking services safely and with ease	Social and Relationship Capital – Customer (page 83 to 90) Intellectual Capital (page 107 to 115)	✓	✓	✓				✓

Relevance

✓ High: Considered a priority for action

✓ Moderate: Adequate action is required to control potential impacts

✓ Low: Adequate measures are already in place or the impact is beyond our control



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OUR NEXT PHASE

People's Bank stepped into 2021 powered by the continued delivery of strong results from its successful "Strategic Plan 2016 – 2020" which was designed to secure our journey in positioning as the undisputed market leader in Sri Lanka's financial services sector, while also achieving ambitious profitability targets over the course of five years. The progress of the Bank's 2016-2020 strategic commitments and objectives were reviewed during 2020 as the basis to formulating the Bank's next stage of strategic growth and expansion. However, a set of fundamental shifts in the global and local operating environment during 2020 profoundly impacted People's Bank and the wider financial services sector, and needed to be urgently addressed.

People's Bank tackled this unprecedented state of affairs by formulating a short-term strategic plan for the year 2021, fundamentally designed to enable the shift from our Strategic Plan 2016 – 2020 to our new three-year Strategic Plan 2022 – 2024, by equipping the Bank with the necessary infrastructure, technology and capabilities, and aligning our overarching vision, ambition and refreshed purpose to sustain our position as the market leader in Sri Lanka's financial services sector.

STRATEGIC PLAN 2021

The Planning Process

The successful implementation of our Strategic Plan 2016 – 2020 in the five years leading up to 2021 afforded us a greater, in-depth insight into the Bank's core capabilities, resources and strengths that could be leveraged during 2021. The immediate and short-term nature of the plan enabled us to formulate a strategy internally through in-depth collaboration between the Bank's Strategic Planning Department in collaboration with other divisions across the Bank, with multiple brainstorming sessions conducted with the representation of all staff grades, especially those manning the front-lines across our branch network. These sessions enabled us to identify resource, skill and infrastructure disparities that needed to be immediately met in order to efficiently adapt to a rapidly changing operating environment on pages 44 to 51 and banking business model.

We factored in current realities including volatile customer behaviour and expectations, expedited advances in technology as well as unprecedented economic conditions, and formulated a customer-centric strategic plan to support the vision of our ambitious future role to be the Bank of Choice for the Sri Lankan consumer. This also included devising strategic initiatives to achieve digital maturity, cost leadership and process simplification that would allow People's Bank to swiftly and successfully shift from a position of volatility to one of stability during 2021, and meet our stakeholder needs in the immediate, short, and eventually long-term.

The planning process included a comprehensive internal analysis of the Bank's physical and financial capacities, followed by a number of standard strategic planning methodologies and frameworks; a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis was carried out for a situational assessment of the Bank, while the PEST (Political, Economic, Social and Technological) analysis was carried out for an assessment of macro-environmental factors that could impact the Bank's strategic planning. Given the Bank's ultimate beneficial state ownership, the PEST analysis also supported the Strategic Planning Department to align the Strategic Plan 2021 with the current Government's National Policy Framework (NPF) – Vistas of Prosperity and Splendour. The Bank also conducted an industry analysis, a competitor analysis, segmental evaluation for each product, business performance scanning as well as a comprehensive internal scan in terms of our intellectual capital and human capital to support the formulation of the Strategic Plan 2021.

Monitoring and Reviewing Process

The progress of the Strategic Plan 2021 was monitored and periodically reviewed by the Board Strategic Plan Review Committee (BSPRC) with a total of four meetings held during 2021. More frequent monthly, quarterly and annual meetings held at management level to ensure all KPIs are achieved. Reasons for deviating were discussed in depth and remedial actions were immediately carried out in the case of any deviations from Strategic Plan 2021. This stringent monitoring was implemented across the entire strategic planning process as represented in the following flowchart, an approach that enabled us to develop a concise and highly effective Strategic Plan 2021.

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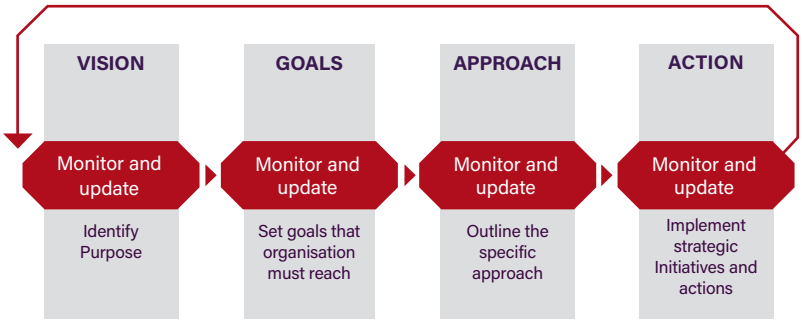
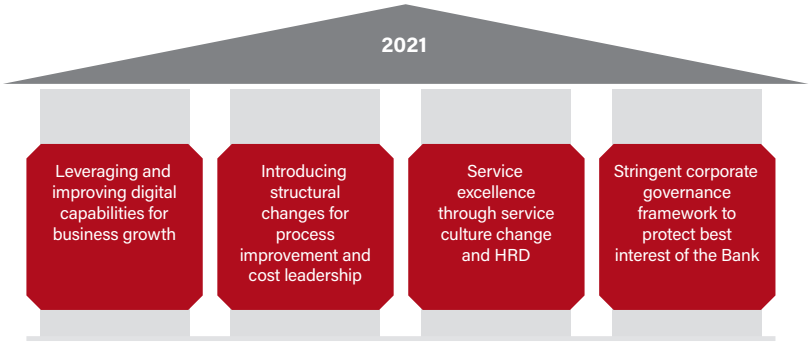
OUR STRATEGIC PLAN



The Pillars

The Strategic Plan 2021 was based on four strategic pillars, which represented the high-level objectives that defined the areas of focused activities and initiatives that guided the Bank to achieve its strategic goals for 2021.



1. Leveraging and improving digital capabilities for business growth

Having commenced our visionary and ambitious digitisation journey in 2015, People's Bank has been in the forefront of digital innovation and ahead of its competition in terms of pre-pandemic digital adoption. This far-sighted investment enabled us to capitalise on our existing digital channels to provide an unrivalled customer service during the year under review, with all 352 People's Bank branches equipped with digital customer onboarding among other facilities for a more expansive reach across the country. We continued to improve our electronic payment and transaction channels while introducing innovative banking products and processes, keeping up with the rapid pace of emerging realities and changing lifestyles.

Leveraging and further improving our digital capabilities enabled us to grow our business and expand our market share in an increasingly digital local market. One of our key KPIs to achieve this objective is to expand our customer base and reach to cover new, emerging demographics of young, digitally-native and digitally-driven individuals and professionals looking for highly efficient, agile and sophisticated digital banking solutions.

2. Introducing structural changes for process improvement and cost leadership

Under this pillar, one of our key strategic initiatives during the year under review was branch rationalisation to support ambitious cost reduction targets, which would contribute to the Bank's overarching objective of achieving cost leadership in the local banking sector.

As banking transactions move into the digital space and push geographical locations People's Bank took a strategic approach towards analysing our existing branch footprint, and taking necessary action to optimize our existing resources based on data insights. This included data analytics on the transaction mix and product mix at each branch, as well as market densities, demographics, financial demand and competitive climate. This preliminary analysis was then supported by branch-specific metrics such as staffing model, staff rotation, infrastructure, etc. for better decision making.

In terms of process improvement, we professionalised our supply chain to improve our procurement process and ensure alignment between the supply and demand of resources for better resource utilisation and conservation, also supporting the numerous environmentally-friendly initiatives implemented across our branch network. Our digital banking advancement has also contributed to our paperless banking journey, alongside which we have offered revolutionary new green banking solutions, brought a new level of convenience to our customers whilst reducing our carbon footprint and levels of energy consumption at the same time.

We enhanced our retail loan recovery process and auction process to support a revived drive for recoveries during the year. This effort was

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complemented with an aggressive push to increase fee-based income through credit card schemes and digital products to balance the Bank's contracting Net Interest Margin (NIM).

In a bid to mitigate our operational costs we took a more systematic approach towards conducting a cost-benefit analysis which included a preliminary survey, a feasibility study and a resulting report that supported macro-focused levels of spending across the Bank during the year.

The Bank also consolidated our product and services portfolio to offer innovative banking and financing products that address current and emerging realities, supported by an expanding treasury portfolio and investment banking capabilities.

3. Service excellence through service culture change and HRD

To meet the heightened expectations for service quality by a customer base that has become increasingly accustomed to instant gratification, our key focus under this pillar for 2021 was to further promote a customer-centric culture of benchmarked service standards to deliver an exceptional customer experience.

In order to achieve and sustain a new benchmark in service excellence, we implemented a focused strategy to develop our human resources – particularly our frontline personnel – building capacities and enhancing knowledge through result-oriented trainings and evaluations. With their attention focused on the needs of the customer, we enhanced our levels of attentiveness and responsiveness that has resulted in both superior service and customer loyalty. Employees were further encouraged with a reward-scheme introduced across the branch network to promote performance-based rewards at individual and branch level.

We also upgraded our retail and corporate banking capabilities, improving our core banking infrastructure to ensure the smooth functioning of overall Banking operations to complement our efforts on enhancing customer experience.

4. Stringent corporate governance framework to protect best interest of the Bank

We remained committed to prioritising corporate governance and ethics, with exemplary financial and other relevant operational disclosures to promote transparency and accountability. We continued to execute stringent audit and compliance practices to strengthen the risk management and governance structure of the Bank, including prudent and far-sighted evaluations of cyber risks with the increased frequency of transactions carried out on digital channels.

PROGRESS OF STRATEGIC PLAN 2021

Having successfully continued our comprehensive digitalisation journey, the year 2021 saw 70% of the Bank's total conventional banking transactions carried out via digital channels. Our deposit base is close to LKR 2.1 Tn. with a loyal customer base close to 14.5 million. Governance and best practices remain top on the agenda, as reflected through our AA- Fitch Rating. We also retained our position among the Top 3 most valuable brands in Sri Lanka.

During 2021, People's Bank transformed and reconfigured a number of branches considerable under our branch rationalisation initiative, setting branch-specific strategies such as serving defined demographics, distributing high volumes of transactions, and other such complementary strategic areas of focus to improve the overall performance of the Bank.

STRATEGIC PLAN 2022 – 2024

Having strengthened our core Banking capabilities, resources and infrastructure, our new strategic plan would chart the course of the Bank from 2022 onwards, focused on capitalising the opportunities of our technological advancements and market-leadership position to reach newer, untapped customer segments in Sri Lanka. The main focus is customer service enhancement and customer satisfaction.

SHORT AND MEDIUM-TERM MEASURES TO IMPROVE THE PERFORMANCE OF THE BANK IN THE FUTURE

1. Micro, Small and Medium-sized Enterprise (MSME) Development

1. Engage with a larger segment of micro, small and medium-sized customers to facilitate credit facilities but also to create a business-conducive environment.
2. Ensure the credit facilities are easily deliverable on the need basis of MSMEs.
3. Identify the priority sectors in lending in line with Government's Economic Policy Framework. Focused priority sectors:
   - Agriculture (farming, livestock, fisheries, agri produce collectors and intermediaries, small rice millers)
   - Manufacturing industries focused on direct and indirect exports and imports substitution
   - Food and beverages
   - Innovation and technology-based business
   - Essential services (health, education, logistics, telecom)
   - Constructions
4.

i. Introduce new loan products in line with the above

ii. Allow new MSMEs concessionary rates and terms

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iii. Low interest rates during capital repayment, grace periods, comfortable security coverage with relaxed securities for small ticket sizes
iv. More empowerment for credit approval to expedite disbursements
v. Strengthen the Credit Units who evaluate requests
vi. Participate in concessional lending schemes directed by Ministry of Finance, Central Bank of Sri Lanka and Ministry of Industries and Commerce
vii. Conduct entrepreneurship development sessions/ conferences
viii. Business counselling
ix. Set up a desk for women and youth entrepreneurship development to address lack of financial literacy and support business planning across both segments
x. Nurture entrepreneurship in young graduates through an incubation system developed by the Bank
xi. Direct entrepreneurs to support agencies such as Industrial Development Board, CISIR, SLTDA, SLIM etc.
xii. Develop linkages with large corporates for supply chains and business improvements
xiii. Appoint 24 Development Officers/ Field Officers to cover the 24 regions to grow MF/DF portfolio
xiv. Match facilities with Agri Modernisation Scheme grants offered by Ministry of Agriculture
xv. Liaise with Smallholder Agri Business Partnership Programme (SAPP) to offer facilities to farmers
xvi. Establish a Credit Revival Unit to rehabilitate sick projects

2. Deposits

1. Maintain interest margin at a competitive level to gain the competitive market edge when reducing the deposit interest rate (whilst maintaining the position as the market leader) when and where necessary, and market the higher interest offered by the Bank and provide benefits to savings products, attracting customers by enhancing the quality of customer service, providing additional benefits etc. and marketing higher interest rates in order to gain the advantage against competition.
2. Maintain a strong low cost deposit base as a competitive advantage for the Bank to survive in a crisis situation, and to maintain the leading position in the market by reinstating and revitalising the "Sales Team", establishing Memorandums of Understanding (MOUs) between People's Bank and other companies/institutes which are benefited through the Bank, introducing a mechanism to bypass bottle necks in *Sisu Udana*/Isuru Udana gift scheme, introducing a system or a privilege card to identify loyal, profitable, best customers of the Bank to provide a superior service at any branch of the Bank, aggressive direct mail promotions to attract new customers.
3. Offer customer oriented-features/ attributes of savings products when promoting existing products/ introducing new products and give priority for the qualitative aspects, and provide attention to the requirements of customers and provide efficient, quality service through the bundle of features affiliated with savings products.
4. Increase the demand deposit base (current account deposits) of the Bank as a highest income generating source through advertising CA products and special features of those products to profitable customers, enhancing the image of People's Bank current account by reducing cheque returns due to non-availability of funds and also remarks like stop payments, ENR, PP, Package of products as per the need of the customers (e.g. letter of guarantee, leasing, temporary overdraft, loans, short term loan, bill discounting, letter of credit openings etc.)
5. Mechanisms to follow up minor accounts which are having stagnated balances, with a view to increase minor (low cost) deposit base and maximise the return on investment made by the Bank by providing the initial deposit.
6. To increase the deposit base of the Bank;
   i. Experiment alternative channels
   ii. Strengthen daily collection process in the branch network and introduce mechanism to monitor the daily collection regularly
   iii. Integrate personalisation with Big Data
   iv. Implementing strategies to increase demand deposit base of the Bank
   v. Increase total deposits through overall customer experience
   vi. Re-launch deposit products
   vii. Streamline the promotional campaigns of asset and liability products (retail) of the Bank
   viii. Dedicated sales channel to increase deposits
   ix. Retail product development and management

3. Pawning

1. Improve customer service of the pawning unit to increase the pawning income and enhance the pawing business of the Bank through identifying regular and prime customers of pawning and providing a loyalty card to serve them on priority basis, providing uninterrupted service for pawning customers (during employees' lunch time), extending pawning

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business hours (e.g. 7.00 am to 5.00 pm) and efficient service for renewal customers.

2. Offer extended services to retain existing customers and attract new customers to enhance the pawning business of the Bank through facilitating pawning sections with technologically advanced, sensitive and reliable gold valuation equipment (densimeters), pawning advance amount should be on a par with market gold value and competitor rates, attractive and relaxed ambience at pawning lobby area, information relating to pawning procedure could be exhibited at the lobby area (i.e. part payments, renewals, interest rate benefits, etc.)
3. Facilitate awareness programmes (campaigns) on pawning business and promotional strategies to enhance the pawning business of the Bank.
4. Improve the auction process to optimise the recovery process.
5. Strengthen marketing and promotional strategies.

4. Credit Card Business

1. Increase the credit card base, credit card profitability and the fee income generated from credit cards (in addition to the interest income); where most of the transactions are carried out through virtual platforms today through introducing a reward system, Near Field Communication (NFC), use social media for advertising credit cards, use pop up messages to search engines and deploying more POS machines covering all regions.
2. Streamline credit card promotional campaigns.
3. Upgrade service quality and efficiency through staff training.
4. Improve overall customer experience of People's Bank card holders.
5. Upgrade the knowledge of the staff members (in the Branch network) on credit cards.
6. Attract potential customers through higher educational institutes prior to entering the job market.

5. Reducing Non-Performing Loans

1. Expedite recovery through legal proceedings (litigation).
2. Train all the credit officers on recovery and litigation procedures.
3. Help small scale customers of the Bank to overcome their unexpected/unfavourable situations and to develop their business providing financial literacy and financial advices to reduce their unnecessary cost, increase turnover, potential market etc., with a view to protect our customers and to strengthen their business with new business opportunities as well.
4. "VIEWPOINT" centres to support and partnering with genuine defaulters.
5. Monthly Recovery Champions to incentivise employees.
6. Maintain close engagement with non-performing customers.
7. NPL Review Committee to stringently monitor recovery efforts and results.

6. Management of Expenses

1. Cost reduction measures on expenses related to marketing/ business promotion, rent, electricity, hiring charges of ATM, CDM, Kiosks, and maintenance of premises and data communication, to mitigate the impact of COVID-19.
2. Introduce structural changes for process improvement and cost leadership.
3. Resource optimisation and harnessing maximum benefits from expenses borne by the Bank by increasing the number of transactions per CDM and reducing per transaction cost alternatively.

7. New Channels

1. Attract immediate family members of internal customers of the Bank, an organised effort to tap into the staff and their families – as an alternate channel to increase the low-cost deposit base, credit card volume and healthy customer base of the Bank simultaneously and increase loan portfolio of the Bank; since the non-performing ratio would be zero or very low in this segment.
2. Promote special loans and card schemes among university students as a lucrative future customer segment of young professionals.
3. Capitalising digital channels.

8. New Product Development

1. Provide financial and non-financial assistance for COVID-19 related Innovators and Investors at the early stage and develop them into successful entrepreneurs in the future, by partnering with them at the initial stage.

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OUR VALUE CREATION MODEL

OPERATING ENVIRONMENT

VISION

INPUTS

FINANCIAL CAPITAL
- Equity capital
- Customer deposits
- Borrowings
- Liquidity management
- Capital management
- Dividend policy
- Shareholder engagement
- Market capitalisation
- Healthy/Stable NPL ratio

MANUFACTURED CAPITAL
- Property, plant and equipment
- Largest branch network in the banking industry
- Information security
- Advanced technology platforms
- Widest SBU network in Sri Lanka

INTELLECTUAL CAPITAL
- Organisational knowledge
- Strong brand image and value
- Global and local accolades and recognition
- Value-based culture
- Good governance framework
- Effective internal control system
- Robust risk management framework
- Innovation
- Sound policies and procedures
- Ethics and compliance
- Digitalisation drive

GOVERNANCE FRAMEWORK

BUSINESS ACTIVITIES

- Consumer Banking
- Enterprise Banking
- Treasury and Investment Banking
- Corporate Banking
- International Operations

Services

Delivery Channels

MISSION

OUTPUTS AND OUTCOMES

FINANCIAL CAPITAL
Achieved profitable growth in business volumes and incomes, diversified and strengthened the capital base and liquidity position to create long-term financial value for our stakeholders. During the year 2021, Bank's ROA (before tax) recorded as 1.25% and ROE as 19.93% while employees received salaries and other benefits amounting to LKR 22.8 Bn. The Bank also paid LKR 6.7 Bn. in corporate income tax in 2021, contributing towards maintaining public resources and creating financial value in the communities we operate. Part of our profits were also strategically redirected towards the future growth of the Bank.

MANUFACTURED CAPITAL
Created value by delivering unparalleled access to banking and financial services to customers by leveraging Sri Lanka's largest and farthest-reaching multi-channel banking network. Created value for employees by opening the Bank's first state-of-the-art training centre with accommodation facilities, and reinvested in the sustainable growth of the Bank with the construction of our new Head Office Building to create long-term value for our stakeholders.

INTELLECTUAL CAPITAL
A brand strength of 80.9, brand equity index of 3.8, and a total of 12 awards and accolades strengthened the value of the People's Bank brand in 2021. Value was created for customers by expanding our digital portfolio to include services such as digital onboarding and personal loan processing, leading to the total of digital customers increasing to 1.7 million during the year, with 70% of the Bank's conventional banking transactions carried out on digital channels. Strengthened our risk and governance aspects and promoted a culture of transparency, integrity and accountability.

STRATEGIC PILLARS

Delivering exceptional client experiences

Maintaining a steady growth momentum and building resilience

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HUMAN CAPITAL

- Diversified workforce of 7,568 employees
- Skills and competencies
- Performance-driven culture
- Performance based reward structure
- Loyalty and commitment
- Recruitment policy
- Training and development
- Employee grievance policy

SOCIAL AND RELATIONSHIP CAPITAL

Customers

- Close to 14.5 million customers
- Strong customer relationships
- Customer-centric culture
- Digital banking channels
- Comprehensive solutions
- Customer grievance handling mechanism

Business partner

- 258 suppliers
- LKR 16.5 Bn. provided as credit facilities to community based development
- Long-standing business partner relationships
- Transparent procurement policy

Community

- LKR 12.7 Bn. invested in community development initiatives
- Promoting UN Sustainable Development Goals (SDGs)
- Socially responsible lending
- Community based development lending

NATURAL CAPITAL

- People's Green Pulse environmental policy
- Carbon conscious certification
- Energy, water and waste management initiatives
- Renewable Energy Investments
- Green Lending

Support Services

- Human Resources
- Information Technology
- Procurement
- Administration
- Marketing and Communications
- Risk Management and Compliance
- Strategic Planning
- Capital Management
- Financial Management

HUMAN CAPITAL

A total of 83 promotions were effected during the year under review, creating long-term value and strengthening the Bank's resilient, engaged and inclusive workforce of 7,568 professionals. With LKR 22.8 Bn. Further it was provided 112,250 training hours to enhance the skills and capabilities of our people, the Bank created sustainable value for our employees alongside a safe and conducive work environment, efforts that were acknowledged and duly reflected in a 98% retention rate.

SOCIAL AND RELATIONSHIP CAPITAL

We support growth and development, deliver sustainable value and create opportunities by engaging with and investing in our customers, business partners, and the communities in which we operate. Our customer base close to 14.5 million in 2021, with the Bank partnering with third parties to reach underserved customer segments. Enhanced digitalised services over LKR 680 Bn. worth transactions were carried put via our digital channels.

NATURAL CAPITAL

The Bank continued to reduce its carbon footprint in 2021 through investments in purpose built green building constructions and renewable energy investments across its branch network. Operational efficiencies resulting from digital and paperless banking, as well as efficient management of our waste, energy and water consumption also contributed towards making our operations environmentally friendly. Additionally, the Bank created sustainable value by incorporating environmental considerations into our lending and investment decisions, and introducing financing solutions for renewable energy in 2021.

Achieving operational excellence

Promoting ethics and integrity

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CONTRIBUTION TO SDGs

People's Bank is committed to contributing towards the UN Sustainable Development Goals whilst executing its strategic priorities and achieving the Bank's overarching vision. Relevant strategic priorities were identified for each of the four strategic pillars to deliver value to the stakeholders. The strategies maintain a close interaction between the six capitals – financial, manufactured, human, intellectual, natural, and social and relationship capitals, which facilitate the value creation process of the Bank.

Strategic pillar	Material topics, SDGs, and capitals	Strategic priorities for 2021	2021 progress	Future priorities
Leveraging and improving digital capabilities for business growth	**Material topics** • Digital leadership • Process improvements • Brand Equity • Customer experience and Customer access **SDGs** **Capitals** • Manufactured Capital • Intellectual Capital • Human Capital	• Capitalizing digital channels • Digital innovations to enhance customer experience • Improving electronic payment channels • Expanding/Excelling in digital reach (business growth) • Process Improvements in parallel with digitalisation	• Digital customers increased to 1.7 million • Over 70% of all banking transactions conducted on digital channels, totalling to a value of LKR 601.3 Bn. • LKR 12.7 Bn. Investments in digital technology and infrastructure • Awarded Best Digital Bank in Sri Lanka 2021 by the International Business magazine • People's Wave the most downloaded mobile banking app of 2021 • Over 500,000 registered users on People's Web • Over 1.1 million financial transactions conducted monthly on "People's Wave" app • Retail Loan Originating System (RLOS) extended to 200 branches by the end of 2021 • Opening the 250th Self-Banking Unit (SBU)	• Continuous process improvement • Introducing innovative products, processes and technology • Sustaining position of digital leadership in local banking sector

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Strategic pillar	Material topics, SDGs, and capitals	Strategic priorities for 2021	2021 progress	Future priorities
Introduce structural changes for process improvement and cost leadership	**Material topics** • Process improvements • Structural changes • Efficient Service delivery **SDGs** **Capitals** • Financial Capital • Human Capital • Intellectual Capital	• Rationalisation of branch network • Re-mapping branch geography • Environmentally friendly branches • Professionalising channel supply chain • Resource optimisation • Proper reporting channels • Consolidated portfolio • Strengthening retail loan recovery process • Focusing on incremental growth • A process driven approach • A systematic approach to conduct cost-benefit analysis • Macro-focused spending • Improving auction process • Aggressive push for fee-based income including inward remittances • Effective fund management • Improving the treasury portfolio with new avenues • Expanding investment banking capabilities	• 350 number of branches rationalised • 14% operational cost savings year-on-year • LKR 463 Bn. worth of retail loans portfolio • 23% increase in fee-based income year-on-year • Several new products launched including focused products to targeted consumer segments, i.e. Agriculture sector • People's Bank Investment Banking Unit (PBIBU) successfully managed the debenture issue of Ceylon Electricity Board (CEB) for LKR 21 Mn., and the unlisted debenture issue of the Urban Development Authority for LKR 15 Bn., strengthening investment banking portfolio • 19 of the 24 regional branches achieved year end targets for non-performing loan (NPL) recoveries within the first three months of 2021	• Optimising the supply chain • Implementing more cost reduction initiatives • Building strong foundations for sustainable business growth • Focused spending • Customer centricity

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Strategic pillar	Material topics, SDGs, and capitals	Strategic priorities for 2021	2021 progress	Future priorities
Service excellence through service culture change and Human Resource Development (HRD)	**Material topics** • Satisfied employees • Service Excellence • Channel management **SDGs** **Capitals** • Intellectual Capital • Human Capital • Social and Relationship Capital • Manufactured Capita	• Service culture change and service quality improvement • Service excellence through up-skilled human resources • Employee knowledge enhancement through strategic and focused training and questionnaire-based evaluations • Upgrading corporate banking capabilities • Two-way performance appraisals • Performance-based branch-wise rewards • Improving physical evidence and infrastructure to ensure smooth functioning of the Bank • Existing branch ergonomics • Putting the customer first • Enhance customer experience on retail lending • Retail product development and management	• 90% Customer Satisfaction rating • 98% Employee Retention rate • Crowned People's Banking Service Provider of the Year for the 15th consecutive year at the SLIM Nielsen People's Awards 2020 • Prioritised service towards senior citizens • Uninterrupted Service for Pawning Customers • The development of a high-end Merchant Payment System internally • Opening People's Bank's first state-of-the-art Staff Training Centre/Holiday Resort in Pasikudah • Rewards and recognition to top loan-recovery branches and overachievers on monthly GM update	• Nurturing and strengthening a customer-centric culture • Focused training and development for employees • Promoting and sustaining service excellence
Stringent corporate governance framework to protect best interest of the Bank	**Material topics** • Risk and governance • Compliance • Responsible lending • Anti-corruption • Socio-economic impact • Environmental impact of the business **SDGs** **Capitals** • Social and Relationship Capital • Natural Capital • Human Capital	• Ensuring that the Bank complies with government/ CBSL regulations and avoid missteps that could result in hefty fines • Assessing compliance status of new products/processes • Nurturing a responsible, compliance conscious culture • Business perspective audit controls • Establishing a risk culture within the Bank for overall risk mitigation • Managing cyber risks • System audits to minimize vulnerabilities • Assessing risk perspectives of digital platforms • Nurturing a responsible, risk conscious lending culture	• 24 Regional Risk Officers appointed to cover all regional offices • Contributed towards the UN Sustainability Development Goals • Commencement of the installation of solar panels across 20 branches in line with the Green Banking Environmental Sustainability Policy of the Bank. • Complied with BASEL III and IFRS 9 regulations • Strengthened the whistle-blower policy • Minimised risk exposure by approving a pre-selected group of insurance companies • Bolstered the existing Integrated Risk Management Framework • Ensured the Code of Ethics is followed by all employees • Terms of reference for Board sub-committees • Stringent implementation of anti- corruption practices	• Implement Board approved policies for every operational aspect • Sustaining a strong culture of compliance • Promoting a culture of ethics and integrity • Enhancing employee engagement in corporate governance • Green banking and sustainability

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OUR IMPACT

We are conscious of the multiple elements and people that contribute towards our growth and work towards delivering value to them.

FINANCIAL CAPITAL

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"During its sixty-year journey, People's Bank has encountered many challenges. Some stemming from broader macro-economic circumstances and others unique to the Institution. In either event, **the Bank has always emerged victorious thanks to its strength stability and unrelenting pursuit to grow backed by its sound financial capitals.** 2020 and 2021 was no exception. Despite the pandemic exacerbated macro stresses, the Bank during 2021 - not only faced such challenges with courage but also rose to the national cause and, in the process, expanded its scale of operations in a manner previously unseen, improved its net interest margins amidst a highly volatile interest rate environment and improved its cost efficiencies despite rising inflationary pressures. As a result, it reported benchmark profitability from an Institution perspective and industry near highs from a Capital Adequacy stand-point. This is one aspect of People's Bank's multi-faceted brilliance"

OUR APPROACH

During 2021, People's Bank continued to work ambitiously and purposefully to deliver in its role as a National Financial Services provider, undeterred by the limiting circumstances. Backed by a highly committed and driven team of professionals; as spread throughout the country via the industry's largest banking network, the Bank aimed at positively creating value for the benefit of all stakeholders and, more importantly, the Government assisting them in their efforts to not only save the economy from deeper consequence but also help in its revival.

From a profitability perspective, during the year under review, People's Bank's consolidated total operating income reached LKR 110.7 Bn. and total operating expenses amounting to LKR 50.5 Bn., either of which up 21.9% and 14.9% respectively over 2020. Consolidated pre-tax and post-tax profits amounted to LKR 37.2 Bn. and LKR 28.1 Bn.; representing a 51.1% and 74.6% growth. On a Bank standalone basis, figures were LKR 30.4 Bn. and LKR 23.7 Bn., respectively - up 43.2% and 67.3% over 2020.

KEY HIGHLIGHTS

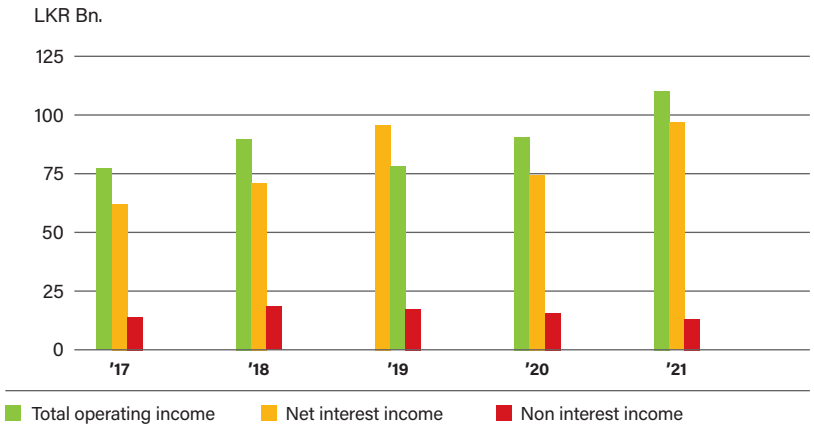
- Consolidated gross income reached LKR 236.8 Bn.
- Consolidated net interest income grew by 30.2% to reach LKR 96.9 Bn.
- The Bank's cost to income ratio improved to 51.1% from 54.3% in 2020 and 61.8% in 2019 showcasing a consistent marked improvement
- Impairment charges rose by 25.1% year-on-year reflecting pressures on credit quality
- Consolidated ROA (before tax) recorded as 1.4% and ROE as 17.7% during 2021. This compared well with 1.1% and 12.0%, respectively in 2020

INCOME STATEMENT ANALYSIS

Gross Income

The year 2021 saw a year-on-year increase of 5.8% in the Group's gross income, reaching LKR 236.8 Bn; with interest income, fee and commission income as well as other non-funded income continuing to remain its main sources of revenue. Consolidated total operating income reached LKR 110.7 Bn in 2021 relative to LKR 90.8 Bn during 2020. The Bank's operating income accounted for 83% of group operating income.

TOTAL OPERATING INCOME, NET INTEREST INCOME, NON INTEREST INCOME



Net Interest Income

Net interest income - representing core operations of the Group - accounted for 87.5% of total operating income, increasing by 30.2% year-on-year to LKR 96.9 Bn. in 2021 from LKR 74.4 Bn. in 2020. Given below is an analysis of the constituents of net interest income.

Interest income

Interest income grew by 7.4% to LKR 222.4 Bn. in 2021. Income from customer advances accounted for close to 80.0% of total interest income, whilst other investments comprising of government securities accounted for the balance.

	2021 LKR Bn.	2020 LKR Bn.	2019 LKR Bn.	2018 LKR Bn.	2017 LKR Bn.
Total operating income	110.7	90.8	96.5	89.8	77.5
– Net interest income	96.9	74.4	78.6	71.2	62.7
– Non-interest income	13.8	16.4	17.9	18.7	14.8
NIM - %					
– Consolidated	3.7	3.3	3.8	4.0	4.0
– Bank	3.4	3.0	3.2	3.5	3.5

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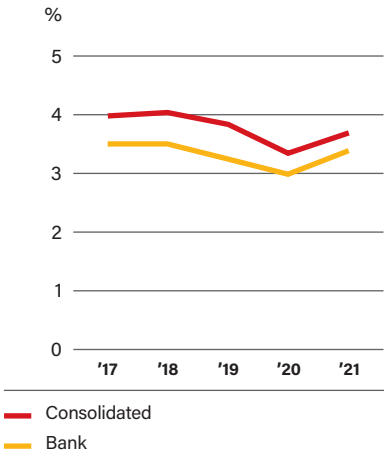
Interest expenses

Interest expenses contracted by 5.3% to LKR 125.5 Bn. in 2021 relative to 2020. Of the total interest expenses, deposit related expenses made up close to 84.0% of which more than 74.0% was on account of term deposits.

The Group's net interest margin grew to 3.7% in 2021 from 3.3% in 2020 reflecting dynamic asset and liability pricing in a highly volatile interest rate environment. At a Bank level too, interest margins improved to 3.4% in 2021 from 3.0% in 2020.

NET INTEREST MARGIN



Non-interest income

Non-interest income comprises of fee and commission income, trading income and other operating income. This remains a key area of focus for both the Bank and the Group going forward.

The Group's net non-interest income decreased by 15.7% to LKR 13.8 Bn. from LKR 16.4 Bn. in 2020. In 2021, this was largely reflective of the loss arising from SWAP transactions.

Consolidated net fee and commission income, comprising of fees related to loans and advances, credit cards, trade and other digital channels increased to LKR 9.0 Bn. in 2021 from LKR 7.3 Bn. reported in 2020.

Other operating income consists of net earned premiums across the Group's insurance business and bad debt recoveries. This decreased by 4.6% year-on-year to LKR 6.0 Bn. in 2021 from LKR 6.3 Bn. in 2020.

Impairment charges

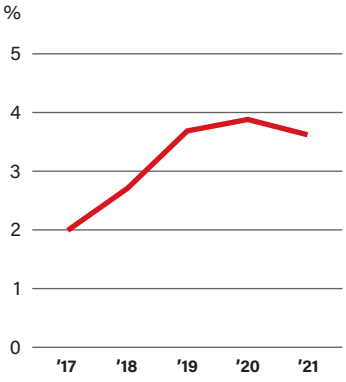
From a consolidated perspective, impairment charges dropped by 17.5% to LKR 14.5 Bn. from LKR 17.6 Bn. in 2020; primarily reflecting improved collections and thereby reduced impairment charges from People's Leasing & Finance PLC standpoint. On a Bank standalone basis, impairment charges rose 25.1% to LKR 14.5 Bn. in 2021 from LKR 11.6 Bn. in 2020 reflecting stressed credit quality stemming from macro and other circumstances. Throughout the year, People's Bank made substantial provisions after reviewing the prevailing challenging macroeconomic conditions. Individually significant customers were prudently evaluated and appropriate provisioning made considering the severity of the pandemic on each customer's business operations. As a means of factoring the long-term impact of COVID-19 on the client's ability to repay loans, the Bank reassessed the risk profiles of its customers in order to determine if they should be moved to stage two from stage one under collective impairment.

During 2021, the Group's stage 1 and stage 2 provisions grew year-on-year by 27.4% and 118.3% respectively. Stage 3 provisions increased by 5.4% to LKR 92.2 Bn. in 2021 from to LKR 87.4 Bn. in the previous year.

At end 2021, the Bank's consolidated stage 3 loans as a function of its total gross loans was 4.7% as compared with 4.2% at end 2020. On a Bank standalone basis, this was 4.0% and 3.5%, respectively which was more or less in line with key peer averages. Its consolidated stage 3 provision coverage was 46.9% at end 2021 whilst, on a Bank standalone basis, it was 50.2% which compared well with its peers.

Total regulatory provision coverage ratio on a Bank solo and consolidated basis was 74.8% and 75.7% respectively at end 2021.

NON PERFORMING LOAN RATIO



Cost management

Total operating costs increased by 14.9% to LKR 50.5 Bn. in 2021 from LKR 44.0 Bn. in 2020.

Personnel costs

Personnel costs accounted for approximately 55.0% of total operating costs, with an increase of 15.5% in personal costs at Bank level reported during 2021 when compared with 2020.

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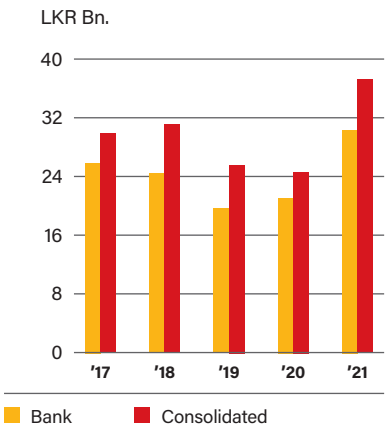
Other operating cost

Other operating costs increased by 12.4% to LKR 22.8 Bn. during the year under review from LKR 20.3 Bn. in 2020. Despite cost pressures, the Group's cost to income ratio (inclusive of VAT on financial services) was broadly maintained at close to 53.0% levels whilst, at a Bank level, this improved to 51.1% in 2021 from 54.3% in 2020. Relative to 61.8% in 2019, this was a market improvement showcasing the Bank's efforts to consistently improve its cost efficiencies. With efforts in this connection yet continuing, further improvements are only reasonably expected over the short-to-medium term as the Bank intensifies its focus on further improving productivity and operational efficiencies much of which aided by its digitalisation efforts.

PROFITABILITY

The Group's pre-tax profit increased by 51.1% to LKR 37.2 Bn. in 2021 from LKR 24.6 Bn. in 2020.

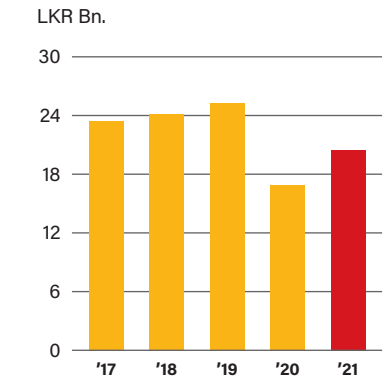
PROFIT BEFORE TAX



TAXES, DIVIDENDS TO THE GOVERNMENT OF SRI LANKA

During the year under review, the Bank's total consolidated taxes and dividends to the Government of Sri Lanka amounted to LKR 20.4 Bn., representing a 25.1% growth over LKR 16.3 Bn. in 2020. On a Bank standalone basis, this was LKR 16.3 Bn. and LKR 14.4 Bn., respectively. This takes the total paid to the Government in the form of taxes and dividends over the immediately preceding ten years to LKR 164.6 Bn. on a Bank standalone basis alone.

VALUE CREATED FOR GOVERNMENT - GROUP



STATEMENT OF FINANCIAL POSITION ANALYSIS

Deposits

The Group's customer deposits increased by 12.1% to LKR 2,168.7 Bn. at end 2021 from LKR 1,935.2 Bn. at end 2020.

Total deposits accounted for approximately 78.2% of total Bank's funding, reflecting the Bank's strong deposit base supported by its large branch network, customer base and retail banking franchise.

Despite a volatile interest rate environment, CASA was broadly maintained at 39.3% levels at end 2021.

Local currency deposits accounted for close to 90.1% of total deposits, while foreign currency deposits decreased to 9.9% at end 2021 from 10.2% at end 2020.

	2021 LKR Bn.	2020 LKR Bn.	2019 LKR Bn.	2018 LKR Bn.	2017 LKR Bn.
Current Accounts and Savings Accounts (CASA)	853	757	571	543	525
Term deposits	1,310	1,172	1,012	943	771
Others	6	6	6	10	9
Total	2,169	1,935	1,589	1,495	1,306
CASA (%)	39.3	39.1	35.9	36.3	40.2
Currency					
Local (%)	90.1	89.8	91.8	93.4	90.6
Foreign (%)	9.9	10.2	8.2	6.6	9.4
Total (%)	100.0	100.0	100.0	100.0	100.0

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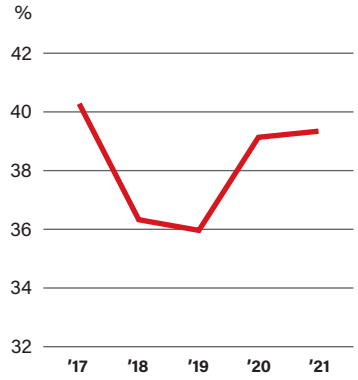
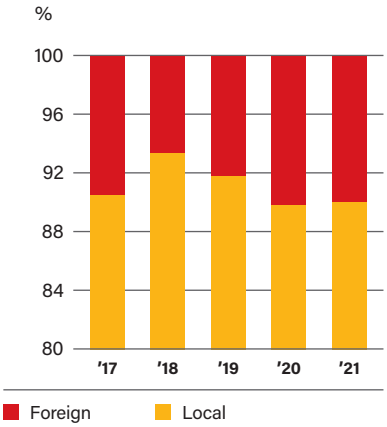
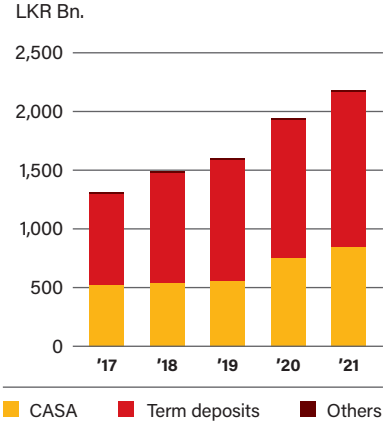
CASA RATIO



TOTAL DEPOSITS - BY CURRENCY



DEPOSITS



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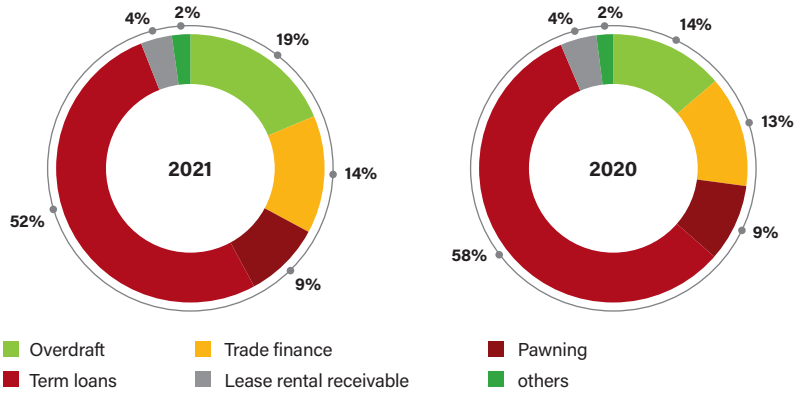
Loan Book

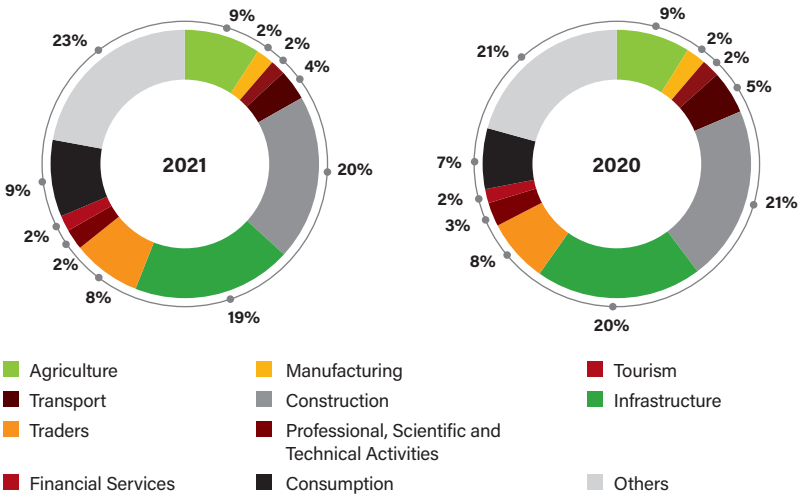
Gross loans grew by 12.1% by end 2021 to LKR 2,103.6 Bn. compared to LKR 1,876.2 Bn. at end 2020. Much of the loan growth stemmed from credit extended to the State and Other State-Owned Enterprises. Sector wise exposures were diverse with construction and infrastructure accounting for 20.0% and 19.2% of the total customer advances, respectively at end 2021. In this context, it must be pointed out that, approximately two thirds of construction exposures were housing loans backed by property mortgages.

	2021 LKR Bn.	2020 LKR Bn.	2019 LKR Bn.	2018 LKR Bn.	2017 LKR Bn.
Total advances (gross)	2,104	1,876	1,544	1,490	1,209
By type					
Overdraft	392	258	145	126	116
Trade finance	299	251	234	281	141
Pawning	195	175	163	150	137
Term loans	1,092	1,073	880	808	700
Lease rental receivable	79	82	88	95	89
Others	47	38	34	30	26
Total	2,104	1,876	1,544	1,490	1,209

CUSTOMER ADVANCES BY TYPE



CUSTOMER ADVANCES BY SECTOR



SOLVENCY

At end 2021, the Bank's Consolidated Tier I and Total Capital Adequacy Ratio was 13.4% and 17.9%, respectively as compared with 10.7% and 15.6% at end 2020. On a Bank standalone basis, these were 12.6% and 17.8%, respectively as compared with 9.5% and 15.5% at end 2020. The Bank's Total CAR was not only the Institution's all times highs but was also amongst the highest in the industry.

LIQUIDITY RATIOS

At end 2021, the Bank's Statutory Liquid Asset Ratio across its Domestic Banking Unit and Off Shore Banking Unit was 23.5% and 25.9%, respectively as compared with 25.6% and 60.5% at end 2020 and a regulatory minimum of 20.0%. Its All Currency Liquidity Coverage Ratio was 105.7% as compared with 111.6% at end 2020 a regulatory minimum of 100.0%

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MANUFACTURED CAPITAL

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"The Bank's manufactured capital refers to our tangible infrastructure which aids in our stakeholder value preservation and creation process. This encompasses, amongst many other, our investments in the country's largest and nation-wide branch and service center network. Our supplementary access composed of our Self Banking Units and Standalone Self Servicing Terminals as well as strategic investments in Technology infrastructure and other investment properties. **This is the backbone of our operations**"

OUR APPROACH

We have, over the years developed a high-quality asset base and highly efficient operational processes that have been equally important in creating a distinctive competitive advantage as the innovative products and services we offer. We ensure that all assets are maintained at optimal levels to eliminate downtime and rework, ensuring smooth operations and continuously driving stakeholder value.

KEY HIGHLIGHTS

- Largest branch network in the banking industry with 742 branches island-wide
- Widest Self-Banking Unit (SBU) network in Sri Lanka with 268 SBUs island-wide

MATERIAL THEMES

- Digital leadership
- Customer Access

CHALLENGES

- Continued physical restrictions and regulations due to resurgence of COVID-19 variants slowing down the refurbishment of branches and setting up of new SBUs
- Increasing cybercrime and online security threats requiring strategic investments for multiple cyber security levels across the Bank
- Challenges in sourcing IT infrastructure and other equipment due to import regulations

OUR IMPACT

DECENT WORK AND ECONOMIC GROWTH

Ensure a safe and conducive workplace for our employees

INDUSTRY, INNOVATION AND INFRASTRUCTURE

Advance operational priorities through innovation, digitalisation and system improvements to increase resource efficiency and sustainability

REDUCED INEQUALITIES

SBUs across the island provide all customer segments access to world-class banking solutions

RESPONSIBLE CONSUMPTION AND PRODUCTION

Promote paperless banking through digital banking channels and e-procurement for efficient resource utilisation

CLIMATE ACTION

Contribute towards a greener planet through resource conservation resulting from digitalisation

VALUE CREATED

- LKR 1,284.3 Bn. transactions conducted via SBUs in 2021

CAPITAL LINKAGES

FINANCIAL CAPITAL

- Contribution towards revenue and profit growth
- Cost reduction through high operational efficiencies

NATURAL CAPITAL

- Paperless banking as a result of enhanced digital channels
- Green branches that optimise natural resources

HUMAN CAPITAL

- Career growth through capacity and knowledge expansion
- Staff empowered by improved technology and processes
- Creation of new job opportunities across niche technological focus areas

INTELLECTUAL CAPITAL

- SBUs and Green Banking concepts increasing brand loyalty and visibility
- Process efficiency through advanced technology

SOCIAL AND RELATIONSHIP CAPITAL

- Stronger customer relationships
- Enhanced customer experience through digitalisation
- Highly appealing and accessible ambiance in branches and SBUs

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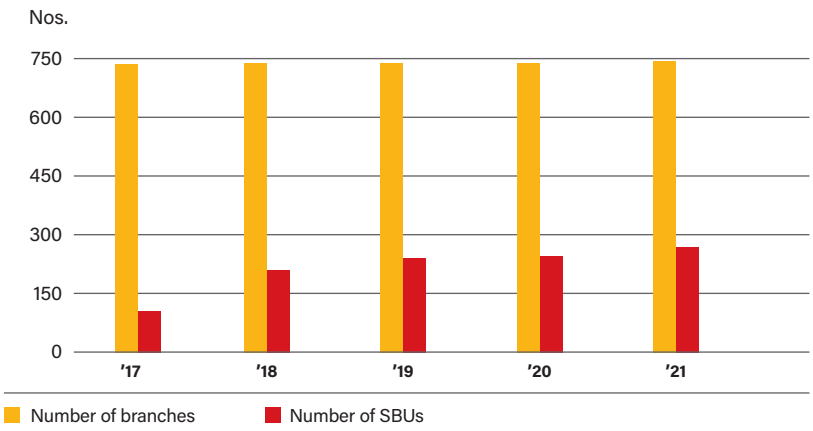
MANUFACTURED CAPITAL STATISTICS

	Number of Branches	Number of SBUs	Number of ATMs	Number of CDMs	Investment in Branch Development LKR Mn.	Investment in IT Systems LKR Mn.
2017	737	102	572	121	1,091	987
2018	738	210	716	141	1,391	322
2019	739	239	755	270	1,378	430
2020	741	244	765	274	228	196
2021	742	268	797	298	1,161	860

NUMBER OF BRANCHES AND SBUs



OUR CUSTOMER TOUCHPOINTS

Our continued and exemplary commitment to financial inclusion and making banking accessible to all Sri Lankans over the past six decades has been a key contributor in nurturing a financially strong and independent society that continues to support the economic stability of Sri Lanka.

We continued to enhance customer experience through our physical and digital customer touchpoints across Sri Lanka. As the country's leader in digital banking services, we provide financial solutions close to 14.5 million customers across the island through our 742 branches and an extended network of 797 ATMs, 298 CDMs and 268 SBUs where customers enjoy a convenient and efficient banking experience that is accessible 24 hours a day, 365 days a year. The SBU concept - pioneered by People's Bank - has particularly empowered our rural customer base with accessibility and engagement with modern technology apart from banking services, and introduced them to the potential and efficiencies of digital banking.

As part of the Bank's 60th anniversary celebrations in 2021, we introduced an automated cheque deposit kiosk at the head office branch, which allows cheque details to be uploaded as data, eliminating the need for manual intervention and facilitating customers to deposit cheques around the clock. These kiosks will also be added to relevant SBUs to meet the growing financing urgencies of our corporate clients.

In 2021 this network facilitated 82.6 million transactions worth over LKR 1.2 Tn. Our ATMs generated more than LKR 800 Bn. worth of transactions, our CDMs gave rise to LKR 460 Bn. worth of business, while our self-service kiosks initiated LKR 5 Bn. in transactions.

797 ATMs

742 Branches

268 SBUs

298 CDMs

221 Kiosks

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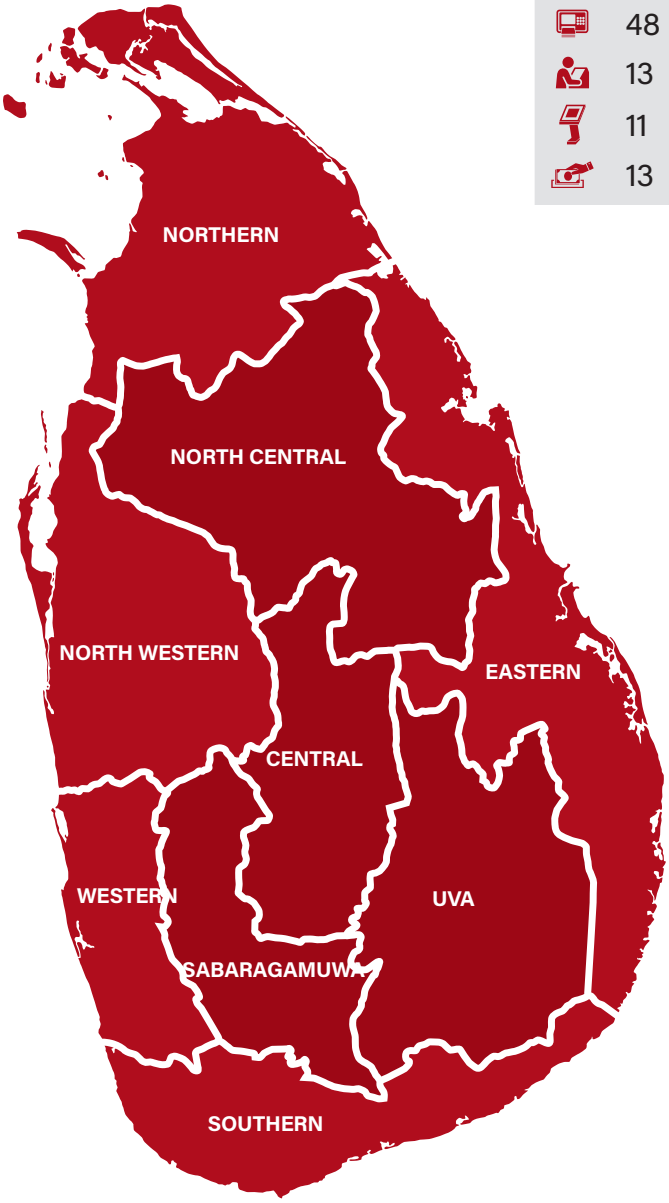
GEOGRAPHICAL DISPERSION OF OUR NETWORK



NORTHERN	
Branches	49
ATMs	48
SBUs	13
Kiosks	11
CDMs	13

NORTH CENTRAL	
Branches	53
ATMs	55
SBUs	20
Kiosks	14
CDMs	22

EASTERN	
Branches	61
ATMs	57
SBUs	17
Kiosks	14
CDMs	18

NORTH WESTERN	
Branches	75
ATMs	76
SBUs	23
Kiosks	20
CDMs	27

WESTERN	
Branches	217
ATMs	244
SBUs	98
Kiosks	79
CDMs	114
Elegance Centre	1

CENTRAL	
Branches	96
ATMs	103
SBUs	33
Kiosks	25
CDMs	36

UWA	
Branches	49
ATMs	58
SBUs	16
Kiosks	14
CDMs	27

SOUTHERN	
Branches	86
ATMs	96
SBUs	30
Kiosks	28
CDMs	31

SABARAGAMUWA	
Branches	56
ATMs	60
SBUs	18
Kiosks	16
CDMs	21
Elegance Centre	1

Branches ATMs SBUs Kiosks CDMs Elegance Centre

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INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT

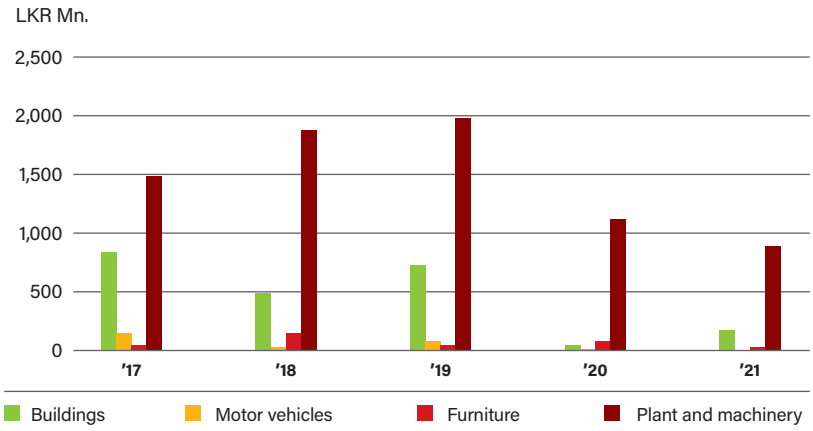
LKR 1,126.7 Mn. was invested to augment the physical infrastructure of the Bank by acquiring and upgrading property and equipment in 2021. This includes freehold land, buildings, motor vehicles, furniture, machinery, equipment and computers that support the value creation process of our Bank.

We opened our first state-of-the-art Staff Training Centre with accommodation facilities in Pasikudah in March 2021. The property consists of an auditorium with a 160-seat capacity, 8 air-conditioned dormitories to accommodate 160 persons, fully equipped kitchen and bakery, 2 storied restaurant, swimming pool, and 5 additional 2-storied cottages with 10 double rooms in total. A number of existing People's Bank holiday homes across the island were also renovated during the year under review, while taking steps towards building two new holiday homes in Welimada and Hambanthota.

Construction of People's Bank new Head Office building began in May 2021 under the virtual patronage of the Honourable Prime Minister of Sri Lanka. The building consisting of 23 floors and 3 basement floors is being constructed utilising state-of-the-art technology and green building concepts, and will fulfil a long felt need for a fully-fledged head office.

The Bank opened its 250th Self-Banking Unit at the Kandy City Centre in May 2021. Significant investments were also made during the year to develop and upgrade our IT infrastructure in tandem with our dynamic digitalisation drive.

VALUE ADDITION TO PROPERTY, PLANT AND EQUIPMENT



INFORMATION TECHNOLOGY

People's Bank enjoys the unprecedented advantage of an advanced technology platform and future-ready, highly scalable IT infrastructure that has helped us expand coverage, improve reliability, convenience and agility, elevating our operational efficiencies to new benchmarks in the local banking landscape.

During the year, we improved our IT infrastructure across our branch network in terms of bandwidth, hardware and communication. We also upgraded firewalls, conducted assessments to monitor the health of our IT security and issued specific user IDs for varying levels of authority, facilitating a seamless, hybrid working environment that helped our employees handle confidential data as they switched working between branch and home. We also continued with our cloud adoption, further improving data security and reducing infrastructure cost.

We aim to implement Artificial Intelligence (AI) data mining to improve segmenting, targeting, acquiring, and retaining customers to maintain and grow a profitable customer base.

The details of a host of world-class digital banking facilities powered by our manufactured capital are further elaborated in the Intellectual Capital on pages 83 to 90 of this Report.

FUTURE OUTLOOK

The sustainable development of the Bank depends on the strategic investment of manufactured capital, so that we can be flexible to rapidly evolving needs of the operating environment and continue to offer all our customers world-class conveniences. We will focus on enhancing the services of our branch network and continue to digitally empower branches, enhancing our infrastructure and deploying new market leading technologies in order to maintain our leadership position in the banking industry. More processes will be automated to improve efficiencies and increase access to banking services.

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INTELLECTUAL CAPITAL

"Our intellectual capital includes the Bank's collective knowledge, culture, brand reputation, intellectual property and all other intangible assets that power the Bank's value preservation and creation process"

OUR APPROACH

We believe in creating a seamless flow of knowledge and information among our internal and external stakeholders in order to enhance our intellectual capital and create sustainable value. In order to do so, we have continued to invest and expedite our ongoing digitalisation, upgrading our systems and processes and thereby sharing and enhancing our collective organisational knowledge to elevate our corporate brand and offer innovative banking solutions to customers.

KEY HIGHLIGHTS

- 90% customer satisfaction
- Brand equity index of 3.8
- 1,662 employees with over 20 years of service
- AA-(lka) credit rating with a stable outlook from Fitch Lanka Rating Ltd.
- 12 awards and accolades won in 2021

MATERIAL THEMES

- Customer experience
- Digital leadership
- Operational efficiency
- Brand equity

CHALLENGES

- The outbreak of the COVID-19 pandemic hampered the implementation of the strategic plans for the year
- Not being able to install School Banking Units and ATMs from March 2020 onwards
- Functioning with a lesser number of staff in office by working according to a roster
- Getting customers onboarded to digital channels
- Getting customers adapted to digital channels

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OUR IMPACT

INDUSTRY, INNOVATION AND INFRASTRUCTURE

Investments in digitalisation under a long-term strategic outlook directly impacts industry, innovation and infrastructure

RESPONSIBLE CONSUMPTION AND PRODUCTION

The continuous upgrades of systems and processes increases operational efficiencies and promotes controlled consumption of energy, water and other material contributing to preserving scarce natural resources

PEACE JUSTICE AND STRONG INSTITUTIONS

Building a strong institution through strong governance, compliance and ethical behaviour

VALUE CREATED

- Brand strength was at 80.9 in 2021

CAPITAL LINKAGES

FINANCIAL CAPITAL

- Investment in digitalisation has reduced operational and overhead costs across the Bank on a sustainable level

NATURAL CAPITAL

- Digitalisation has reduced consumption of paper significantly contributing to the conservation of natural resources

HUMAN CAPITAL

- Investment in capacity development and training continues to improve employee productivity and build tacit knowledge

MANUFACTURED CAPITAL

- Investment in digitalisation, systems and processes builds manufactured capital
- Customer onboarding can be done without investment in branch expansion

SOCIAL AND RELATIONSHIP CAPITAL

- Our compliance to strong governance, business ethics and customer-centric culture enhances our brand reputation and customer confidence

BRAND EQUITY

2021 marked the Diamond Jubilee of People's Bank, a milestone that not only celebrated 60 years of operational excellence in Sri Lanka, but also immensely contributed towards enhancing the Bank's brand equity among existing and potential customers. A number of 60th anniversary promotions were carried out across traditional and digital media campaigns with a specially designed 60th anniversary logo to create visibility of the achievement, including television and media interviews of the Bank's senior management to further enhance the Bank's well-established reputation.

A special Coffee Table Book was published to commemorate the occasion, which also introduced the Bank's new tagline - "Pride of the Nation" *(Jaathiye Abhimanaya)* that was officially launched island-wide in December 2021. The tagline aimed to leverage the unique positioning of the Bank as a nation minded entity that customers from all walks of life will aspire to associate with, while also promoting a sense of pride in being Sri Lankan above all across all ethnicities. As such, the Bank's strong brand equity, industry-leading achievements, superior financial performance and benchmarked ethical banking practices justify the Bank's claim to be the pride of the Nation.

The Bank also celebrated the Silver Jubilee of its product *Sisu Udana* - Sri Lanka's first ever deposit account dedicated to students, yet another milestone in 2021 that contributed towards strengthening the brand equity of the Bank.

Supported by strong brand visibility throughout the year with such successes and accomplishments, People's Bank retained its No. 3 position in the Brand Finance ranking

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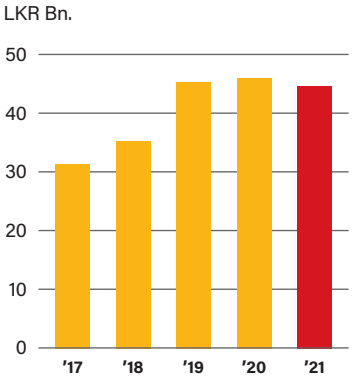
with a reported brand value at LKR 44.75 Bn. in 2021. In addition People's Bank was also included among the Top 10 Most Admired Companies in Sri Lanka and named as one of the Top 10 Women Friendly Workplaces in Sri Lanka. We also obtained a rating of AA-(lka) from Fitch Lanka Rating Ltd and retained our AAA- from Brand Finance Lanka, and increased our brand strength to 80.9 in 2021.

BRAND PERFORMANCE

Our brand performance has continued to improve across a number of key performance indicators in 2021:

Brand Performance	2021	2020
Brand equity	3.8	3.6
Top of mind awareness (%)	36	34
Brand rating	AAA-	AAA-
Brand strength	80.9	80.4
Brand value (LKR Bn.)	44.75	46.16
Customer satisfaction (%)	90	92

BRAND VALUE



AWARDS AND ACCOLADES

We are proud to be recognised for our performance with awards, accolades, and accreditations that recognize our evolution as a bank and our continued investments across enhancing our products, services, systems and practices to deliver the best, most efficient and rewarding banking experience to our customers. People's Bank and its team won a number of local and international awards during the year under review, where we received high recognition for our strategic digitalisation drive across the Bank:

- Adjudged **Best Digital Bank in Sri Lanka 2021** by the International Business Magazine, at which event our Chief Executive Officer/General Manager Ranjith Kodituwakku was also honoured as **Banking CEO of the Year.**
- Crowned **People's Banking Service Provider of the Year** for the 15th consecutive year at the SLIM Nielsen People's Awards 2020 - organized by the Sri Lanka Institute of Marketing (SLIM) and AC Nielsen - a leading global information and measurement company.
- People's Bank was awarded **Best Retail Bank in Sri Lanka** and **Best Digital Bank** at the Asian Banker Excellence in Retail Financial Services International Awards 2021, from over 160 global financial institutions.
- **One of Sri Lanka's Top 10 Most Admired Companies in 2021** - endorsed by CIMA and ICC Sri Lanka. The Bank was assessed across multiple criteria including CSR activity, customer centricity, digital initiatives and stakeholder value preserved.
- **Most Responsive Bank against COVID-19** - recognized by the Asian Development Bank (ADB) at the prestigious ADB Trade and Supply Finance Programme Awards 2021.
- **Champions of Bristol Brain Battle Corporate Quiz 2021** - People's Bank emerged overall champions of the premier corporate quiz competition organised by the Bristol Institute of Business Management, beating over 35 other corporate teams for the honours.

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BRAND DEVELOPMENT

For People's Bank, nurturing and protecting a strong brand reputation that reflects our values and drives customer loyalty has been crucial to our evolving business strategy; our brand reputation underpins our capacity for attracting top talent and maintaining regulatory relationships, while ethical conduct has helped us sustain behaviours internally that are also a key part of strengthening our brand.

Whilst reliability, service, convenience and technology remain the foundational pillars of the People's Bank brand, we have successfully enhanced our reputation as a long-established and highly credible financial institution by improving our value proposition through leadership in digitalisation, innovation, customer service excellence, market presence, good governance and stability, further enhancing our brand.

We closely track our brand health in terms of brand equity, awareness, and customer satisfaction by conducting surveys periodically; at the end of 2021, our customer satisfaction rating was 90%, reflecting the success of our digital as well as branding initiatives that nurtured sentiments of loyalty, trust and satisfaction among our customer base. A total of 352 branches were branded with the 60th anniversary logo during 2021.

We also continued our investment in social media advertising during the year, extensively leveraging digital tools and features to implement highly targeted promotions and campaigns to achieve business growth.

CORPORATE CULTURE

As the "Pride of the Nation", we are rooted in a value-based culture underpinned by our vision, mission, and core values. We nurture a culture that fosters knowledge, encourages new ideas, supports innovation and cultivates inclusivity. We promote open communication and transparency among all internal stakeholders, and place greater emphasis on accountability on par with job responsibilities. Leveraging six decades of knowledge, expertise and unparalleled insight into the mindset and needs of the local banking consumer, People's Bank has fostered a culture that gives employees the

liberty to learn, grow and outperform, with the understanding that innovation can only occur where employees feel safe and trusted, and unafraid to fail.

Outstanding performances by the team are duly appreciated and rewarded, with organisation-wide recognition given to employees who set new benchmarks in performance in the CEO/General Manager's Monthly Core Brief circulated across the Bank.

ORGANISATIONAL KNOWLEDGE

The collective knowledge and experience of our employees is one of the most significant resources of our operation. During our six decades of operation, we have created an unrivalled pool of expertise and experience, with a workforce consisting of long-service staffers to interns. We strive to document and share this vast store of tacit, accumulated knowledge, including highly specialised expertise in banking through knowledge sharing sessions, extensive training and human capital management tools.

The diversity of our employees in terms of their qualifications, knowledge and experience is considered an important competitive advantage. Our high employee retention rate of 98% showcases our success in fostering a stimulating workplace where hard-to-find and hard-to-retain talent feel included, respected and inspired. A number of key recruitments at Executive level including Head of Infrastructure and Operations, Head of Application Systems and Chief Information Security Officer were successfully completed during the year under review, adding to our collective organisational knowledge.

In March 2021, People's Bank opened its first state-of-the-art Staff Training Centre with accommodation facilities in Pasikudah, to further elevate and advance the capacities and credentials of our employees.

Qualification	Number of Employees
MSc/MBA/Postgraduate	540
BA/BSc	1,648
CIMA/CFA/CMA/ CA Sri Lanka/Banking	1,718
Qualifications in Law	86
Qualifications in IT	99
Diplomas and other	4,486
Total	8,577

GRI 102-16

BUSINESS ETHICS

We are committed to embracing the highest standards of business ethics, integrity, transparency, and accountability. The Board and Senior Management take the lead in establishing an environment where these aspects are practiced across every tier of the Bank every day. Our employees showcase their commitment by taking ownership towards their responsibilities and conducting themselves in compliance, with all applicable laws and regulations.

Our stringent audit and compliance processes is reflected in our ratings. Please refer page 186 for our comprehensive governance framework. We have continued to maintain a clear record without being subject to any fines or actions for any instances of non-compliance.

INNOVATION

What differentiates People's Bank from our competition is how we continue to leverage innovation to evolve our business model and disrupt traditional, legacy system banking, and meet the rapidly changing consumer and business expectations. We place a high value on innovation and pursue it relentlessly in our mandate to provide every citizen in Sri Lanka with access to financial services, through the latest and most advanced banking solutions. That is why we pioneered Sri Lanka's first ever Innovation Centre, to strengthen our innovation drive and digital initiatives. We have continued to develop platforms and launch cutting-edge banking solutions to position our Bank on a par with some of the best global banks and nurture internationally savvy banking citizens.

In 2021, one of our key innovations was introducing Wallet App Solution of "People's Pay".

OUR DIGITALISATION DRIVE

People's Bank commenced an ambitious digitisation initiative in 2015, investing in and adopting digital capabilities to elevate the Bank's products and services to global industry benchmarks, and stay relevant to the next generation of banking customers. This pre-pandemic far-sightedness has today afforded People's Bank the brand repute as the pioneer in digital banking in Sri Lanka, with our efforts being recognised and lauded both locally and globally.

Our digitalisation drive has enabled us to achieve cost savings, improve processes, automate repetitive functions and onboard more customers without any investments in physical branch expansion. This is reflected in our earning indicators where revenue per employee has increased substantially from LKR 12.4 Mn. in 2015 to LKR 27.4 Mn. in 2021. Over 70% of conventional banking transactions are now conducted on our digital channels and the value of transactions through our mobile apps and internet banking has increased to LKR 601.3 Bn. in 2021.

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Our investment in computer software and hardware has exceeded LKR 2.7 Bn. for the year under review, as we continue to implement and rollout new functionalities and applications, digitise all functions, internal processes and customer interfaces, to create a seamless, omnichannel experience for our customers.

- Awarded **Best Digital Bank in Sri Lanka 2021** by the International Business Magazine
- First **fully digitalised branch** in Sri Lanka
- First **Bank IT-Innovation Centre** in Sri Lanka
- People's Wave, **most downloaded banking app** in Sri Lanka on the Google Play Store
- First and only bank in Sri Lanka to receive the **highest international accreditation for information protection and security** - the ISO/IEC 27001:2013 certification

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People's Wave

People's Wave remained the most downloaded retail banking app in Sri Lanka in 2021, with over one million downloads since its launch in 2017. Integrated to the Bank's core system, the app allows customers to carry out over 50 different banking transactions remotely. The app offers many features including balance inquiries, loans, credit cards, bill payments, immediate or scheduled fund transfers, and transaction history.

With over 70% of active People's Wave users outside the Western Province, the app has made a significant contribution to the Bank's mission of driving financial inclusivity. On average there are 41,000 monthly People's Wave downloads and the app has executed over 1.1 million financial transactions financial transactions for the value of LKR 17.88 Bn. each month.

People's Wyn

A mobile banking app custom designed for corporate clients, "People's Wyn" allows businesses to conduct a host of banking services remotely, not only designed for essential transaction types such as transfer services, but also transaction authorisation facility in anytime anywhere in the world efficiently and securely. Businesses can make corporate payments to various utility providers such as Customs Duty, IRD payments, EPF, SLPA Payments, Telecommunication etc. This provides great convenience, speed, flexibility and privacy for corporate clients. Since its launch in July 2018, the app counts over 7,220 registered corporate customers and nearly 12,000 active corporate users.

People's Web - Retail

Peoples' Web was launched in sync with the People's Wave mobile app in May 2017 for personal banking with a number of advanced features in addition to all options available in the People's Wave mobile app. Over one million customers were registered on People's Web by the end of the year, with the channel executing nearly 73,500 financial transactions for the value of LKR 3.37 Bn. each month.

People's Web- Corporate

Peoples' Web- Corporate was launched in sync with the "People's Wyn" mobile app in July 2018 for corporate banking, offering a number of advanced corporate features in addition to all of the options available in the People's Wyn mobile app, including a secure dual authentication transaction facility. By the end of the year, People's Web - Corporate had

over 7,200 customers enrolled, with the channel processing over 18,000 financial transactions per month worth LKR 24.3 Bn.

The web portal allows corporates to transfer funds between banks via Lanka Pay, Slips and RTGS. Corporate customers can also manage their payroll, Fixed Deposit opening and withdrawal, and TT - Outward Remittances (end-to-end digitalised without paperwork). Importers and exporters are also able to apply for various Trade financing products online (end-to-end digitalised without paperwork) such as Letters of Credit, Shipping Guarantee, Bank Guarantee, Trade Loans, etc.

Corporate clients can also utilize bill payment facilities powered with real-time updates for Customs Payments, Inland Revenue Payments, EPF Payments and various types of other utility payments through the web portal.

People's Wiz

People's Wiz Accounts - Digital onboarding of customers became the first ever real-time digital customer onboarding application for any bank in South East Asia, Africa and Middle Eastern regions. A completely paperless process facilitating opening of multiple accounts with multiple services such as online activated debit cards with card-less cash facility, e-statement facility, internet/ mobile banking integration, signature verification/KYC, FACTA,AML, Blacklist checking and risk categorisation. Among the many advantages of People's Wiz Accounts, the Bank has recorded time-and-cost savings while customers were afforded remote access to banking services during COVID-19 restrictions and regulations. The completely, end-to-end digital process has also resulted in a significant drop in paper usage across the Bank, contributing towards the Green Banking vision of the Bank. Since its launch in July 2017, 1.7 million customers have been on boarded through People's Wiz. The facility was rolled out in 350 branches by the end of 2021.

People's Wiz Credit Retail Loan Origination System (RLOS)

People's Wiz Credit Retail Loan Originating System (RLOS) is an advanced retail loans processing system which has replaced the manual system of loans processing. This end-to-end digitised process provides applying to disbursement and post disbursement activities. The system has enabled the Bank to process personal loans within hours of the initial request, delivering an exceptional and unrivalled customer experience. The Facility was rolled out across 200 branches by the end of 2021.

People's Pay Wallet App (QR Code Payment System)

With V2.0 launched in October 2021 with an enhanced tri-language user interface and a host of new features including biometrics and self-registration for Lanka QR, People's Pay aims to encourage small businesses to transition to digital channels. The app facilitates fast, secure and low-fee digital payments to any merchant, especially small and medium enterprises (SMEs), while providing customers more security and control over payments. By the end of the year 2021, over 49,000 merchants were registered on Lanka QR with People's Pay, successfully transitioning their businesses to digital payment channels.

Scan to view

THIRD-PARTY TIE-UPS

People's Bank partnered with the Ceylon Electricity Board (CEB), Lanka Electricity Company (LECO) and the National Water Supply and Drainage Board, carrying out API integrations that enables our customers to obtain due payment amounts online in real-time as a value-added service to enhance customer loyalty.

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- Digital customers **increased to 1.7 million** island-wide
- **41,000** monthly average downloads of **"People's Wave" app**
- **Over 70%** of the Bank's conventional banking transactions conducted from **digital channels**
- **Over 1.1 Mn.** financial transactions conducted monthly **on the "People's Wave" app**
- **Digital deposits balance** exceeded **LKR 271.8 Bn.** as at end December 2021
- Average of **LKR 8.2 Bn. digital deposits** balance growth per month
- People's Wiz Retail Loan Origination System (RLOS) launched in **200 branches**
- More than **49,000** merchants registered with People's Pay Wallet App

FUTURE OUTLOOK

We will continue to maximise the Bank's intellectual capital by continuing to support connectivity and collaboration across the Bank, driving our digitalisation agenda to enhance our services and deliver increased value to our customers. The Bank will also look into bolstering knowledge sharing and knowledge management processes and infrastructure. Trainings will be focused on increasing capacities and strategically aligned to bridge any emerging skill gaps across the branch network.

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HUMAN CAPITAL

"Our Human Resource is ourmost treasured asset. They are the heart and soul of our every process and every endeavor. We empower and develop them so that they take care and protect our customers"

As one of largest banks in Sri Lanka, People's Bank is one of the biggest employers in the country. It has a total strength of over 7,500 employees. These employees are from diverse socio-economic backgrounds and come from different parts of the country. The Bank is a critical economic institution and managing the human resources of an institution of this size and importance is a key function.

The continuation of the global pandemic made 2021 a year of unprecedented and unexpected challenges. As in the previous year, the Human Resources (HR) team rose to the challenge, fulfilling many different tasks. During the pandemic, bank services had been declared an essential service. In this context, our major concern was to keep our service running whilst ensuring the wellbeing and safety of our staff. Despite all the challenges, we were able to keep banking services functioning. We were also able to keep open almost all our branches and provide our customers with a full range of services. Demonstrating resilience and initiative, our employees went above and beyond expectations to serve the nation and support our customers, the community, and each other.

OUR APPROACH

The Bank's success has been founded on its team of highly talented and dedicated employees. Our priorities during this period were to keep our service running and keep these employees safe, well, and happy. To ensure this, we adopted several procedures.

We developed an innovative and flexible method of dealing with the staff, which ensured that service levels were maintained at the optimum level. This was a major achievement. Through the IT department, we introduced remote working facilities. Working schedules were organized on a roster basis so that there were always two teams available, one as a primary group, the other in reserve. The rosters were arranged in such a way to ensure that the two groups did

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not mix. This meant that there would always be a team available, even if one group was infected with COVID-19.

We directed our staff to persuade customers to use digitalised tools as much as possible. This represented a major change in our work practice. With the onset of the pandemic, we had to rely more and more on technology and our staff had to master the latest digital tools within a short period of time. As some of our staff are from generation X, this has also been challenge. Nevertheless, this task has generated a sense of team spirit and resulted in excellent teamwork. Thus, the overall impact was very positive.

We began automating all our HR functions and introduced an online platform to serve our customers. We opened many digitalisation channels and trained our staff members to operate and deliver those functions. However, the Bank is not yet fully computerized the processes ongoing.

We seek to improve our knowledge base by enhancing the extrinsic knowledge, tracing and recording the tacit knowledge to improve our efficiency & effectiveness. We believe in our people for our success and everyone working together for a common goal with team spirit.

KEY HIGHLIGHTS

Team Profile

- Employees: 7,568
- Male: 2,931
- Female: 4,637
- Retention: 98.2%

Productivity

- Profit per Employee LKR 3.1 Mn.

Diversity

- 61% of female employees

MATERIAL THEMES

- Operational efficiency
- Talent management
- Training and development
- Employee productivity
- Anti-corruption

CHALLENGES

- The continuation of the COVID-19 pandemic and "work-from-home" measures applied pressure on our staff's ability to maintain a work-life balance, with female staff being particularly affected
- Continuing to work on roster basis to ensure staff health and safety meant that the workplace had to function with fewer staff
- It was a challenge to digitalise the Bank and train the staff to become tech-savvy
- The implementation of the HR System has required much attention, with constant reviewing and revisions of Bank HR policies and procedures

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OUR IMPACT

NO POVERTY

Poverty alleviation through creation of employment opportunities

ZERO HUNGER

Uplifting the lives of our employees through employee benefits

QUALITY EDUCATION

Building employee capacity and knowledge development through training and development

REDUCED INEQUALITIES

Supporting employee diversity and inclusion

VALUE CREATED

- LKR 22.8 Bn. distributed as employee benefits
- 99 promotions were given during the year

CAPITAL LINKAGES

FINANCIAL CAPITAL

- Investment in capacity building of employees increases staff overheads but creates a long-term positive financial impact through productivity and efficiency enhancement
- Granting incentives and implementing safety protocols for employees during the pandemic impacted the financial capital

NATURAL CAPITAL

- Employees contributing to a green environment by engaging in sustainability initiatives
- Constructing green buildings create conducive work environments that contribute to a green environment

MANUFACTURED CAPITAL

- Procurement of the HRM system enhances manufactured capital
- Investment in digitalisation and HR processes increases manufactured capital

INTELLECTUAL CAPITAL

- Increase in tacit knowledge and increased efficiency through training and development builds intellectual capital

HUMAN CAPITAL

- A dedicated team of employees deliver exceptional customer experience
- Training in customer relationship management helps to enhance customer service levels

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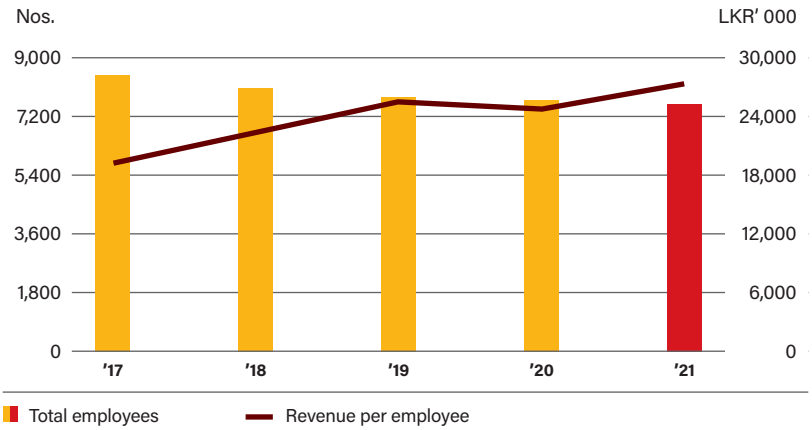
OUR TEAM

The total staff strength as of 31 December 2021 was 7,568. The retention rate of 98.2% reflects the trust and loyalty which our employees have in the institution. Our workforce reflects the diversity of our customers and as such, comes from different ethnic groups and from all parts of the country.

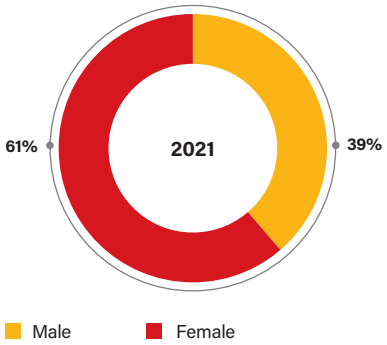
Our human resource statistics

Male employees		Female employees		Total employees		Profit per employee LKR '000		Revenue per employee LKR '000	
2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
3,402	3,184	5,052	4,909	8,454	8,093	2,159	2,112	19,182	22,400
2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
3,058	2,979	4,778	4,713	7,836	7,692	1,650	1,843	25,489	24,829
2021		2021		2021		2021		2021	
2,931		4,637		7,568		3,134		27,385	

TOTAL NUMBER OF EMPLOYEES AND REVENUE PER EMPLOYEE



TOTAL EMPLOYEES BY GENDER



GRI 102-8

Total workforce by employment contract and gender

	2021			2020		
	Male Nos.	Female Nos.	Total Nos.	Male Nos.	Female Nos.	Total Nos.
Permanent staff	2,896	4,625	7,521	2,868	4,684	7,552
Contract staff	35	12	47	111	29	140
Total	2,931	4,637	7,568	2,979	4,713	7,692

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GRI 405-1

Total permanent workforce by employment category and gender

Employment category	2021					2020				
	Male Nos.	Female Nos.	Total Nos.	Male %	Female %	Male Nos.	Female Nos.	Total Nos.	Male %	Female %
Corporate Management	10	7	17	0.13	0.09	9	6	15	0.12	0.08
Executive Management	21	14	35	0.28	0.18	13	15	28	0.17	0.2
Officers (3-111 - Grade 1)	1,387	2,510	3,897	18.33	33.17	1,400	2,557	3,957	18.20	33.24
Staff Assistant Grade	605	1,499	2,104	7.99	19.81	609	1,484	2,093	7.92	19.29
Other categories	894	603	1,497	11.81	7.97	856	630	1,486	11.13	8.19
Management Trainees	–	–	–	–	–	1	–	1	0.01	–
Customer Service Assistants	–	–	–	–	–	–	1	1	–	0.01
Other Contracted Employees	14	4	18	0.18	0.05	91	20	111	1.18	0.26
Total	2,931	4,637	7,568	38.73	61.27	2,979	4,713	7,692	38.73	61.27

Total workforce – department wise for 2021

	Male Nos.	Female Nos.	Total Nos.
Branches	1,835	3,578	5,413
Regional Head Office	489	406	895
Treasury and PDU	12	23	35
Corporate and OSBU	36	125	161
Overseas Customer Services	29	49	78
Card Center	28	37	65
Head Office	502	419	921
Total	2,931	4,637	7,568

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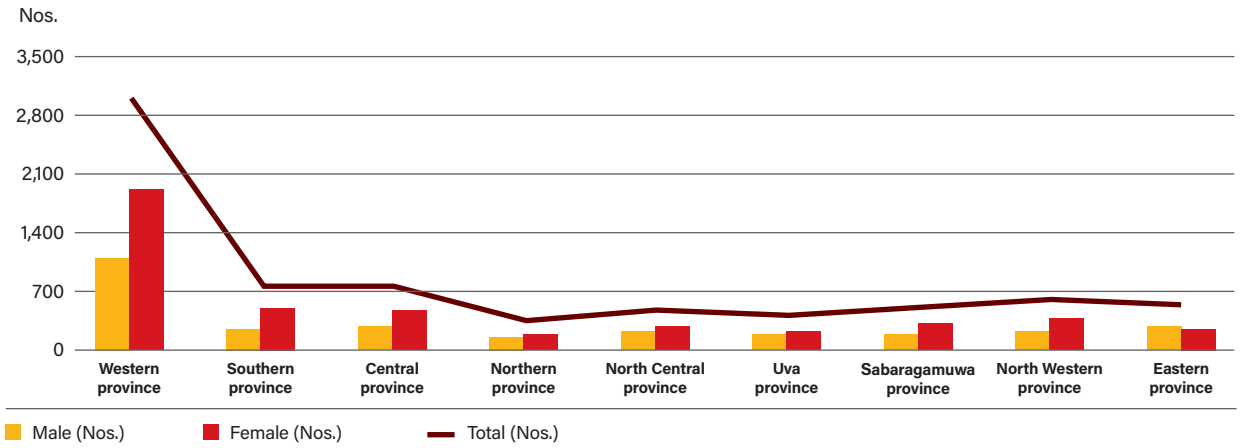
GRI 102-8

Total workforce by geographic distribution and gender for 2021

Province	Male		Female		Total		Total	Total
	2021 Nos.	2020 Nos.	2021 Nos.	2020 Nos.	2021 Nos.	2020 Nos.	2021 %	2020 %
Western	1,092	1,112	1,916	1,955	3,008	3,067	39.7	39.9
Southern	270	278	512	518	782	796	10.3	10.3
Central	288	284	486	501	774	785	10.2	10.2
Northern	171	174	203	200	374	374	4.9	4.9
North Central	215	214	293	295	508	509	6.7	6.6
Uva	196	199	239	246	435	445	5.7	5.8
Sabaragamuwa	194	191	329	329	523	520	6.9	6.8
North Western	226	238	385	385	611	623	8.1	8.1
Eastern	279	289	274	284	553	573	7.3	7.4
Total	2,931	2,979	4,637	4,713	7,568	7,692	100.0	100

TOTAL EMPLOYEES BY GEOGRAPHIC DISTRIBUTION AND GENDER



Total workforce by age and gender

Age	2021			2020		
	Male	Female	Total	Male	Female	Total
>56	196	171	367	188	152	340
46-55	783	636	1,419	781	668	1,449
26-45	1,935	3,828	5,763	1,980	3,887	5,867
18-25	17	2	19	30	6	36
Total	2,931	4,637	7,568	2,979	4,713	7,692

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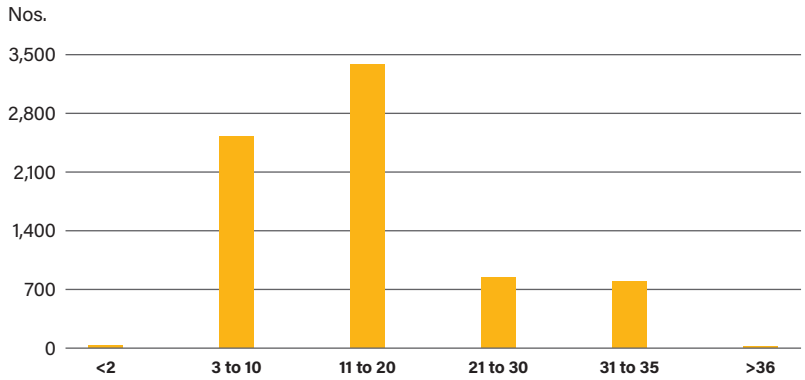
Total workforce by employment category and years of service for 2021

Category	Number of years of service						
	< 2	3-10	11-20	21-30	31-35	>36	Total
Corporate Management	2	1	1	3	9	1	17
Executive Management	5	–	8	8	13	1	35
Officers (3-III - Grade I)	14	342	2,366	633	527	15	3,897
Staff Assistant Grade	–	1,050	972	56	26	–	2,104
Other categories	–	1,107	20	139	226	5	1,497
Other Contracted Employees	7	11	–	–	–	–	18
Total	28	2,511	3,367	839	801	22	7,568

TOTAL EMPLOYEES BY YEARS OF SERVICE



GRI 202-2

RECRUITMENT

Recruitment is post vigorous process of for hiring. Encompasses:

- A transparent process for calling for applications
- Competitive exam
- Multi-tiered interview process with marks given for personality and other traits

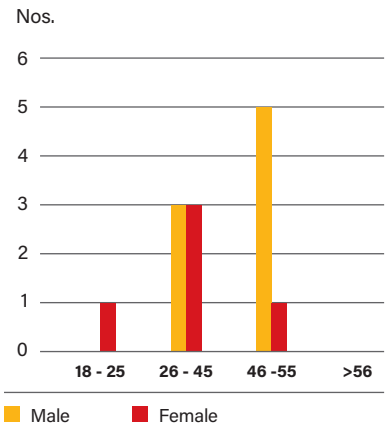
With the advent of digitalisation we have established a new department for information security and recruited Chief Information Security Officer (CISO).

We have also recruited several executive management and corporate management level staff that were required for the Bank. A further two key recruitment areas were filled through enlisting a Head of Infrastructure and Head of Applications. Bank has predominantly young work force.

The recruitment policy framework

- Regular cadre assessments
- Stringent policy for hiring purposes
- Transparent process includes a competency test and a multi-tiered selection/interview process
- Hire qualified individuals with most potential for advancement and demonstrate the aptitude to handle increased responsibility

AGE AND GENDER ANALYSIS OF NEW RECRUITS



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GRI 401-1

Recruitment by age group and gender for 2021

Age	Male	Female	Total
>56	0	0	0
46 - 55	5	1	6
26 - 45	3	3	6
18 - 25	0	1	1
Total	8	5	13

New recruitments by region and gender for 2021

During the year, new recruitments have been done for the Head Office level and no recruitments for the Branch/ Regional level.

Region	Male	Female	Total	Male %	Female %
Head Office	8	5	13	62	38
Total	8	5	13	62	38

GRI 404-1, 404-2

TRAINING AND DEVELOPMENT

As a result of the new normal, training programmes have been mainly focused to conduct as on-line programmes instead of on- site programmes according to the Health Guidelines on COVID-19 pandemic.

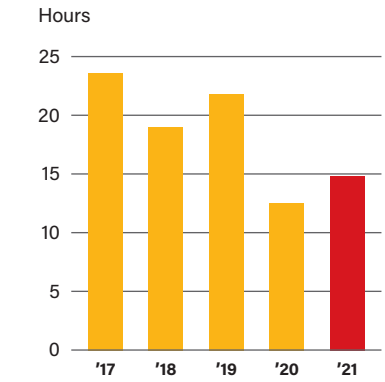
Under that, most of the programmes on technical skills & some programmes of soft skill development (Attitude development & Motivation etc) have been scheduled to conduct as online programmes. Most of the on-site training programmes have been planned to conduct within the regions.

The Bank normally invests around LKR 31.3 Mn. in employee training and development. This year saw a qualitative change in the way we conducted our training sessions, with online training coming to the forefront due to the pandemic. As such, the Bank conducted widespread online training for staff, delivering 130 online training sessions over the year. During the course of this transition and with the realisation that online platforms could be used for a wider variety of training programmes, we are pleased to state that we plan to introduce other initiatives such as e-learning and regional digital training, now that we have a comprehensive online training system

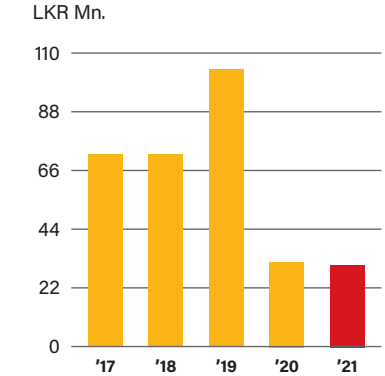
Employee training statistics

	2021	2020	2019	2018	2017
Training cost (LKR Mn.)	31	32	104	74	72
Training hours	112,250	96,435	171,045	161,378	199,956
Average training hours per employee	14.8	12.5	21.83	19.07	23.6
Number of hours on digital training	18,813	16,640	34,480	26,480	–

AVERAGE TRAINING HOURS PER EMPLOYEE



TRAINING COST



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Training programmes in 2021

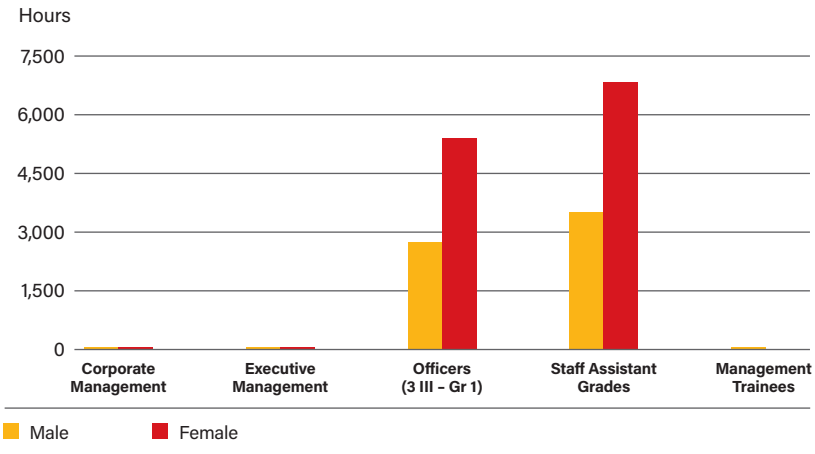
Type of training	Number of Programmes	Number of Participants	Training Hours
Internal training programmes	227	23,509	107,806
External training programmes	57	402	4,374
Foreign training programmes	1	2	70
Total	285	23,913	112,250

Training hours by employment category and gender for 2021

Employment Category	Average training hours	
	Male	Female
Corporate Management	3	7
Executive Management	16	9
Officers (3 III- Grade 1)	2,729	5,397
Staff Assistant Grades	3,508	6,796
Management Trainees	2	0
Total	6,258	12,209

** Excluding nine on-line programmes and contract and other staff*

TRAINING HOURS BY EMPLOYMENT CATEGORY AND GENDER



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Training Initiatives conducted during 2021

Programme & Method of Delivery	Key Objective
Awareness Programme to Improve the Service Quality of Branch Level –Online	To improve the service quality of the branch level by introducing the Lobby Manager concept to minimise lead time and customer complains
Programme on Credit Analysis and Credit Risk Management - Online	To Develop Analytical skills in Corporate Credit/SME Credit/ Macro Economical factors/Industry to minimise and manage the Credit Risk
Residential Leadership Training for the Senior Managers and Chief Manager of IT Department – Field Training & Workshop	To enhance the soft skills of the Middle Management team of IT Department
Training Programme on Export for Managers/ARMM/RMM – Online	To Streamline the export facility process and procedures to cater the demand emerging in Export sector.
Business Credit Competency Development Programme – Gampaha and Kandy Regions – Workshop	To enhance the competencies of the staff engaged in Business credit at regional level
Training Programme on Operational Risk Management for Regional Risk Officers – Online	To introduce the process of risk mitigation in regional level for the newly appointed Risk Officers
Residential Training Programme for Business Promotion Officers – Kandy Region – Field Training and Workshop	To develop Team working skills, communication skills and motivation of the regional BPO's

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GRI 404-3

PERFORMANCE APPRAISAL

We assess the performance of our employees on a continuous basis. All employees are appraised annually by their respective immediate supervisor on the basis of predetermined performance criteria. The performance evaluation of executives and corporate management are based on KPIs in collaboration with the employees and their respective superiors. We encourage all our employees to obtain professional qualifications to enhance their career development. These qualifications are considered when granting internal promotions.

- Transparent, fair and non discriminative remuneration.
- Collective bargaining. Once every three (3) years
- Team rewarding rather than individual rewarding.
- Specialized streams to reward qualified employees.
- Performance based rewarding scheme for branch managers.
- Achievements being appreciated by top management and CEO/GM via monthly review.

PROMOTIONS AND TRANSFERS

All transfers and promotions are conducted in a transparent manner in accordance with the formal promotion and transfer policy of the Bank. An attractive promotion scheme has been instituted for each grade. Employees are encouraged to widen their skills and experience by taking on transfers and promotion opportunities. Up until the Senior Manager (Grade 11) level in the main banking scheme, all promotions are conducted through an exam and interview process. The promotions of Executive, Corporate Management, and other key Management positions are conducted in accordance with a formal procedure via an interview conducted by the Board of Directors. Promotions are generally conducted for most grades, and for senior management level as and when the vacancies occur. Transfers are made both within and outside regions. An employee can appeal to the Appeal Committee established under the transfer policy seeking redress if he/she is dissatisfied with a transfer.

GRI 405-1

DIVERSITY AND EQUAL OPPORTUNITY

As an island wide institution with 61% of female employees, this area represented ongoing concern. The Bank found itself facing several challenges in this area, especially when it came to the work-life balance of its female employees. Throughout the pandemic, pregnant employees and lactating mothers were allowed to work from home. To alleviate some of the pressures, we devised a system where only half were required to be at work physically. The Bank's success in meeting these challenges was recognized at the Women Friendly Workplaces Awards in 2021, where we were recognised as one of the country's Top 10 Women Friendly Workplaces.

GRI 405-2

RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN

We have continued to maintain the ratio of basic salary and remuneration of women to men by employment category and significant locations of operation at our Bank as 1:1. There is

no gender bias in our Bank and women are given equal treatment to men. However, this ratio may change according to the different service periods of employees and their salary grade.

GRI 401-3

MATERNITY LEAVE

419 employees took maternity leave in 2021. Our return-to-work rate and retention amounted to 100% for the past four years.

	2021	2020	2019	2018	2017
Number of employees entitled to maternity leave	4,637	4,713	4,778	4,893	4,611
Number of employees who took maternity leave	419	483	510	517	230
Number of employees who returned to work after maternity leave	419	483	510	517	230
Returned to work (%)	100	100	100	100	100

GRI 406-1

NON-DISCRIMINATION

We are committed to fostering a workplace that is free from physical and verbal harassment and discrimination on the basis of race, religion, gender, age, or social status. Following a policy of nondiscrimination based on the above criteria, we ensure fair employee recruitment, reward, and recognition. Promotions are free from any form of discrimination. Our non-discriminatory culture is showcased by the fact that we have the highest number of female employees in the banking industry.

GRI 403-1, 403-2

Occupational Health and Safety

This period has been a very difficult time for all our employees. Our first responsibility was to keep our staff stress-free and content. Only then could we hope to deliver and meet our targets.

In this context, our first major task was to issue and implement relevant working guidelines in keeping with the health and safety concerns. Realising that working remotely can put people under enormous pressure, we assisted our employees in various ways, developed procedures for staff, and made every possible arrangement for any employee exposed to COVID-19. Staff members working remotely were allotted special assignments so that they could manage themselves and work independently.

We acquired our own ambulance for staff and planned with leading Colombo hospitals to use their ambulances whenever and at whatever time required. We have also made a special arrangement with Nawaloka Hospital, who allocated 10 rooms especially for our employees. Similar arrangements were made with other Colombo hospitals, such as Asiri and Lanka Hospital, and facilities were made available even in the most rural areas. The whole scheme was subsidised by the staff medical scheme which bore all hospital charges.

To ease the burdens of quarantine, essential food items were sent to those who were quarantined. When Sri Lanka was experiencing an oxygen shortage in August and September 2021, the Bank purchased several oxygen cylinders and made them available in the capital and other regional areas.

All these measures had the effect of making our employees feel special, protected, and cared for. Our efforts were recognized by the Asian Development Bank (ADB), who awarded People's Bank the "Most Responsive Bank against COVID-19" at the prestigious ADB Trade and Supply Finance Programme (TSCFP Awards) in 2021.

EXPENSES INCURRED IN RELATION TO HEALTH AND SAFETY IN 2021

Health and safety expenses	LKR Mn.
Medical expenses	2,045.9
Fire and safety	117.6
COVID-19 safety protocols	26.7
Total	2,190.2

EMPLOYEE SATISFACTION

Staff engagement survey

We conduct an employee engagement survey annually to assess the progress of our engagement activities and gauge the motivation of our employees and their willingness to perform their tasks and help realize the Bank's strategic objectives.

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Staff engagement survey participants – 2021

Designation	Male	Female	Total
Deputy General Manager	1	1	2
Assistant General Manager	2	1	3
Chief Manager	9	15	24
Senior Manager	8	3	11
Manager	20	25	45
Deputy Manager	45	62	107
Assistant Manager	38	33	71
Staff Assistant	18	29	47
Office Assistant and below	30	6	36
Secretary and allied grade	1	33	34
Total	172	208	380

Succession planning

We are in a continuous drive to develop the next generation of leaders within the organisational context. 02nd Batch of the Management Development Programme is about to commence in this year for another 50 selected Branch Managers.

An Executive Development programme has been scheduled with another specialized institution, targeting Asst. General Managers and Chief Managers to equip them with the Managerial and Conceptual skills for their future Advancements.

GRI 401-2

Remuneration and Benefits

We adopt an equal pay policy towards male and female employees and maintain an impartial remuneration structure, offering our employees fair, competitive, and attractive packages. To keep employees engaged and motivated, we offer performance-based rewards and other monetary and non-monetary benefits. Our employees are eligible for gratuity, Employees' Provident Fund (EPF), and the Employees' Trust Fund (ETF) payments in line with the relevant laws and regulations. The Bank made a total contribution of LKR 349.3 Mn. to the ETF and LKR 1,397.6 Mn. to the EPF for the financial year 2021.

Based on employment category, all permanent employees are entitled to a range of benefits. The contract and trainee employees are not entitled to certain benefits. The benefits given to permanent employees include annual bonuses, travelling allowances to certain grades, holiday bungalows, staff loans, medical benefits, death gratuity, personal accident insurance scheme, disability and invalidity cover, maternity leave, and retirement benefits. All female employees are given maternity leave in line with the provisions in the Shop and Office Employees Act.

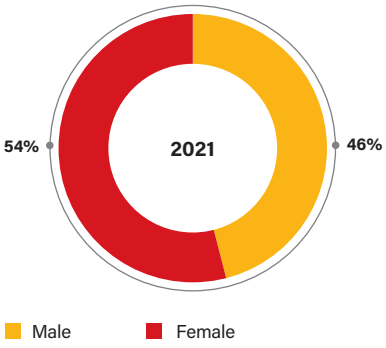
Promoting Employee wellbeing and staff engagement

Managing stress at work is essential to enable employees to remain healthy. It is the key to mitigating staff absences and the potential loss of income. To reduce this factor, we have put measures in place to promote a healthy work culture so that employees can lead healthy lifestyles and work to their satisfaction. To enhance the physical fitness of our employees we offer yoga exercises and a fully equipped gymnasium. The state-of-the-art library at the Head Office provides opportunities for our employees to expand their knowledge. We also encourage staff members to obtain higher qualifications by reimbursing exam fees on successful completion of an MBA and professional subscriptions. Opportunities are provided for employees to participate in staff engagement activities organised through the Bank's Sports Club, Art Club, and other such organisations.

GRI 401-1

EMPLOYEE TURNOVER

EMPLOYEE TURNOVER BY GENDER



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Employee turnover by age group and gender - 2021

Age category	Male	Female	Total
>56	51	45	96
46-55	7	5	12
36-45	3	10	13
26-35	2	14	16
18-25	–	–	–
Total	63	74	137

Employee turnover by age group gender and employment category - 2021

Category	18-25 years		26-35 year		36-45 years		46-55 years		56 years and above	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Corporate Management	–	–	–	–	–	–	–	–	1	–
Executive Management	–	–	–	–	–	–	1	–	2	2
Officers (3-III -Grade I)	–	–	–	5	2	7	1	3	24	34
Staff Assistant Grade	–	–	2	8	1	2	2	–	1	–
Other categories	–	–	–	–	–	1	3	2	22	9
Management Trainees	–	–	–	–	–	–	–	–	–	–
Customer Service Assistants	–	–	–	–	–	–	–	–	–	–
Other Contracted Employees	–	–	–	1	–	–	–	–	1	–
Total	–	–	2	14	3	10	7	5	51	45

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Employee turnover by region and gender

Region	Male	Female	Total	Male %	Female %
Ampara	1	–	1	0.7	–
Anuradhapura	3	2	5	2.2	1.5
Badulla	1	1	2	0.7	0.7
Batticaloa	1	1	2	0.7	0.7
Colombo	2	10	12	1.5	7.3
Galle	4	–	4	2.9	–
Gampaha	2	6	8	1.5	4.4
Hambantota	1	2	3	0.7	1.5
Jaffna	2	1	3	1.5	0.7
Kalutara	2	2	4	1.5	1.5
Kandy	3	9	12	2.2	6.6
Kegalle	1	–	1	0.7	–
Kurunegala	1	4	5	0.7	2.9
Matale	–	3	3	–	2.2
Matara	3	4	7	2.2	2.9
Monaragala	1	–	1	0.7	–
Nuwara Eliya	–	–	–	–	–
Polonnaruwa	–	–	–	–	–
Puttalam	5	–	5	3.6	–
Rathnapura	–	2	2	–	1.5
Wanni	1	–	1	0.7	–
Trincomalee	1	–	1	0.7	–
Head Office	28	27	55	20.4	19.7
Total	63	74	137	46.0	54.0

GRI 402-1

EMPLOYEE COMMUNICATION, ETHICS AND INTEGRITY

Employee Communication

We have several channels which promote two-way communication, where the Bank engages with staff on matters that may affect or interest them whilst staff have the ability to provide feedback and engage in positive dialogue. These channels offer both formal and informal means of communication to ensure that interactions within the Bank remain meaningful. In addition to this, team briefings and employee forums provide staff with the opportunity to contribute their thoughts on key developments and business performance of the Bank.

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Channel of communication	Content	Frequency
CEO/GMs core brief meeting	Each branch manager and head of the departments communicates the message of the CEO/GM to his/her team which includes, the Bank's performance, branch/employee achievements and other important events	Monthly
Corporate Management meetings	The members of the Corporate Management discuss strategic actions and operational issues of the Bank	Monthly
Regional Managers conference	The topics discussed include business progress, recoveries, employee grievances, transfers, business target achievement, and information with regard to various circular instructions	Monthly
Intranet		As and when required
"Pulse" magazine	Newsletter that communicates the significant events, achievements, and performance of the Bank to every branch, regional office, and department of the Bank	Quarterly

GRI 402-5

MINIMUM NOTICE PERIOD FOR OPERATIONAL CHANGES

We provide employees with adequate notice of any operational changes and their possible effects. This helps to reduce any adverse impacts on staff morale which may occur. The minimum notice periods to operational changes are:

Operational change	Notice period
Transfers	2 weeks
Resignations	1 month
Retirements	3 months
Terminations	1 - 3 months

GRIEVANCE HANDLING

We have in place a Board approved mechanism to handle the grievances which can arise during an employee's working career. There is a course of action in place for employees to forward complaints and ensure they are treated fairly, reasonably, and in a timely manner. A mechanism of redress is available for employee concerns/grievances by presenting them to the CEO/General Manager. The CEO/General Manager redresses the grievance/concern based on the outcome of the review provided by the committee consisting of members from Corporate Management. During 2021, corrective actions were taken for a total of 17 incidents presented.

GRI 102-41

COLLECTIVE BARGAINING

The Bank has formal collective bargaining. In November 2021, we were able to sign our collective agreement for a 21 - 24-month year with the Union. This is a major achievement which bodes well for the Bank and its employees.

Employee union	Number of Employees
The Ceylon Bank Employees' Union	5,739
Officers' Union	268
Sri Lanka Nidahas Banku Sevaka Sangamaya	46
Jathika Sevaka Sangamaya	174
All Ceylon Bank Employees' Union	29
Pragathi bank Employees' Union	1,101
Total	7,357

GRI 102-16, 102-17, 102-26, 205-2, 205-3

ANTI-CORRUPTION

We nurture a stringent anti-corruption culture within the Bank. The Internal Audit Department, Investigations and Inquiries Department and the Risk Management Unit facilitate this by training all employees on how to prevent corruption and fraudulent behaviour.

We have a Board approved anti-corruption policy which is communicated to all employees within the Bank. We take a zero-tolerance approach to bribery and corruption and enforce strict disciplinary action in the event of a breach. During the year, 2,730 employees were given 8,167 hours of training on anti-corruption.

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	Number	%
Total number and percentage of Governance body members that the organisation's anti-corruption policies and procedures have been communicated to	All	100s
Total number and percentage of employees that the organisation's anti-corruption policies and procedures have been communicated to	All	100
Total number and percentage of employees that have received training on anti-corruption	2,730	36
Total number and nature of confirmed new incidents of corruption for the year	70	N/A
Total number of confirmed incidents in which employees were dismissed or disciplined for corruption	89	N/A

The following policies have been established to support all staff to practice the highest levels of integrity and conduct when engaging in business for the Bank:

- **Code of Corporate Governance –** Containing the values and conduct required by the Bank, the Code of Corporate Governance sets the tone for all employees. Its focus on ethical behaviour and integrity not only sets the tone for employees, but also helps build an environment of trust, transparency, and accountability that will lead to long-term investment, financial stability, and business integrity for the Bank.
- **Code of Conduct for employees –** This links the Bank's mission, values, and principles with standards of professional conduct, as all employees are required to sign this document at the start of their employment with the Bank.
- **Disciplinary Code –** This document is formal in nature and outlines the Bank's definition of misconduct whilst setting out the formal disciplinary procedure that will be applicable in such a circumstance. The idea is to set out a progressive workplace that deftly deals with misconduct issues, thereby retaining its integrity.
- **Whistleblower Policy –** The whistleblower policy is yet another measure in the Bank's stance against misconduct and corruption and reflects the Bank's zero-tolerance policy. A Bank appointed Director reviews such complaints whilst guaranteeing anonymity to safeguard the employee. The following issues can be reported directly to the immediate supervisor or the Board Audit Committee.
  i. Breach of the Disciplinary Code
  ii. Failure to comply with legal/ regulatory obligation
  iii. Miscarriage of Justice
  iv. Financial malpractices

FUTURE OUTLOOK

As operations gradually return to normal in the post-COVID-19 era, we will recommence our initiatives and programmes with a focus on management and leadership development. We will also draw on the expertise of an HR consultant to develop and improve our HR functions further. We also expect that the implementation of our new HRM system will enhance and strengthen our interaction and relationship with all our employees, making People's Bank a better and happier workplace.

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SOCIAL AND RELATIONSHIP CAPITAL

"Our long-standing relationships with all our stakeholders, including in particular our customers, is the key source of our strength and success. These have stood the test of time and helped the Bank navigate through difficult circumstances. These relationships form the basis of our future strategic direction and decision making process affording us the social and legal license to operate as the exemplary, socially responsible Bank of the People. This section outlines our efforts in strengthening and sustaining our affiliations with our customers, business partners, investors and communities"

CUSTOMER CAPITAL

OUR APPROACH

People's Bank has always imbued a customer-centric approach across all our banking operations, a long-standing strategy and tradition that has garnered us close to 14.5 million customers to date -more than half the population of Sri Lanka. By putting the customer first, we have powered evolution and innovation across our products, processes and service offerings, to meet the demand of rapidly changing customer lifestyles and emerging realities. Our farsighted investments in technology infrastructure and digital adoption to elevate customer relationships and service excellence afforded us and our stakeholders the benefit of enjoying digital dividends during the year under review, where an accelerated migration to digital was witnessed across the Banking sector.

KEY HIGHLIGHTS

- Close to 14.5 million customers across the nation
- Over 500,000 new customers onboard
- 2,326 customer touchpoints

MATERIAL THEMES

- Customer experience
- Operational efficiency
- Digital leadership
- Compliance
- Responsible lending
- Customer access
- Customer health and safety
- Targeted products and solutions

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CHALLENGES

- Enabling on boarding for new customers through digital channels
- Continuously introducing innovative digital solutions to remain ahead of the growing competition of digital banking products and services being introduced to the market

OUR IMPACT

NO POVERTY

Financial empowerment of all citizens and their rights to economic resources and financial services

REDUCED INEQUALITIES

Promoting and facilitating social and economic inclusion of all customers

VALUE CREATED

- LKR 86.8 Bn. loans were disbursed via digital channels
- 73.5% of rural customers have migrated to digital retail channels

CAPITAL LINKAGES

FINANCIAL CAPITAL

- Farsighted investment in digitalisation, training and development, and process improvement to enhance customer experience creates dividends to positively impact financial capital
- Enhanced customer experience increases new customers and expands existing customer portfolios, contributing towards increased financial capital

NATURAL CAPITAL

- Customers using digital channels contribute to a paperless banking ecosystem, and reduced carbon footprint
- Constructing green buildings to serve customers contributes to a sustainable, green banking ecosystem

MANUFACTURED CAPITAL

- Investment in digitalisation and processes helps to deliver an exceptional customer experience

INTELLECTUAL CAPITAL

- Innovation helps to launch industry-leading banking solutions to fulfil customer needs
- Strong governance and business ethics helps to build customer trust

HUMAN CAPITAL

- A dedicated team of employees delivers an exceptional customer experience
- Training in customer relationship management helps to enhance customer service levels

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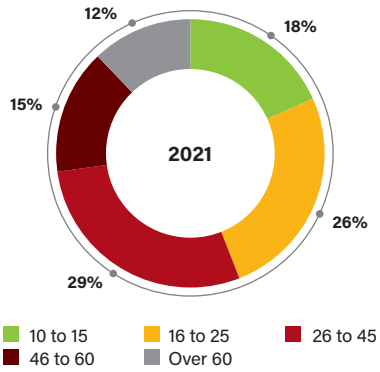
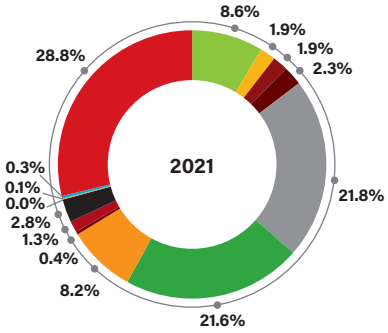
CUSTOMER PROFILE

With an extensive island-wide branch network and a rapidly expanding digital ecosystem, our customer base reached up to 14.5 million during the year under review. Spread across the island with 74.4% of the base living outside the Western Province, we are also exemplary in providing equitable access to finance with a slightly higher female customer base of 51.2%. The steady increase in customer base over the six decades is a testament to the strong customer trust and loyalty towards the Bank. During the financial year 2021, close to 510,000 new customers were added to our customer base.

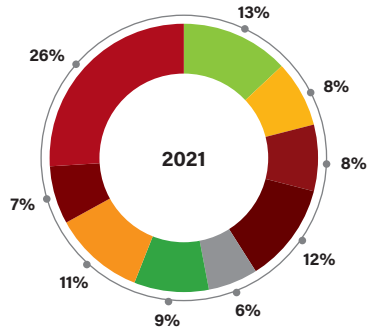
CUSTOMER AGE PROFILE



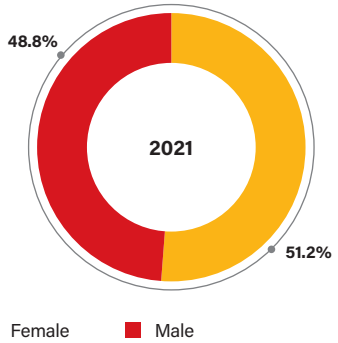
CUSTOMER INDUSTRY PROFILE



CUSTOMER GEOGRAPHICAL DISPERSION PROFILE



CUSTOMER GENDER PROFILE



GRI 102-2, 206-1

OUR PRODUCT AND SERVICE OFFERING

Our products and service offering remains inclusive and dynamic, enriched by our unique blend of experience, customer centricity and seamless integration of technological and digital advancements. They are priced in line with market trends and the country's monetary policy. We do not engage in anti-competitive, anti-trust and monopoly practices. No fines or penalties were incurred during the reporting year.

In 2021, we continued to expand our extensive product portfolio with highly focused products to meet rapidly evolving customer expectations and financing requirements across targeted customer segments and demographics.

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New Products Launched in 2021:

- **"People's SPARK" Entrepreneurship Development Programme** - for young graduates and NVQ Level 5 entrepreneurs
- **AIIB Working Capital Loan Scheme**
- **People's Home Loan** - for salary earners with an unparalleled 5-year grace period
- **New Laptop Scheme** - for students enrolled for the 2019/2020 academic year at all State Universities, students of the Sri Lanka Technological Campus and students enrolled at Vocational Training Colleges and Technological Universities
- **Short Term Loan Facility** - for salary earners in line with the Bank's YES promotional campaign 2021
- **Personal Loan Facility** - for students of Medical Faculties at State Universities
- **Gift Vouchers** - for every new born to open Isuru Udana accounts to mark the occasion of the Bank's 60th Anniversary
- ***Ethera Wasana*** - New Savings Account to attract Rupee deposits from foreign currency earners who are working abroad.
- **YES *Saubagya*** - An extension of the existing YES Savings Account, specially personalised for the salary remittance of 100,000 newly recruited school leavers under the Government's Saubhagyaye Dekma programme
- **YES Skills** - An extension of the existing YES Savings Account, specially personalised as the official savings account for Vocational Training Students in collaboration with the Ministry of Skills Development and Vocational Training
- **YES Uni** - An extension of the existing YES Savings Account, specially personalised as the official savings account for University students
- **Life Verification Certificate** - in collaboration with the Department of Pensions following a formalized MoU, People's Bank deployed 200 life verification machines across our branch network to produce Life Verification Certificates for pensioners to receive timely payouts
- **New Branded Debit Card** and **Certificate of Deposit** for Vanitha Wasana

Promoting Self-Employment in the Agri-Sector, Handicrafts, Batik, Brass, Gold, etc, the Bank offered a number of new loan schemes in 2021:

- **Diri Shakthi Loan Scheme**
- **People's *Thurunu Shakthi* Loan Scheme**
- **People's Divimaga Loan Scheme**

Furthermore, the Bank aligned with the Government's focused efforts on elevating the local agricultural sector following the COVID-19 pandemic and its resulting domestic demand for agri-products, and launched several loan schemes to address the various challenges faced by the industry:

- ***Saraboomi* Loan Scheme** - for organic fertilizer manufacturing in line with the Government's Policy stance
- **Domestic Agriculture Development (DAD) Pilot Loan Programme** - for value chain financing
- **Credit Guarantee Scheme** - for Paddy Millers
- **Bulk Loan** under the Smallholder Agribusiness Partnership Programme (SAPP) - for Dairy, Turmeric and Cavendish

Development and Micro Finance Department empowers smallholder farmers and MSMEs in the agri sector during the year under review. This unit enabled People's Bank to support the implement several high impact initiatives including One Village - One Product; Dairy Villages in Wattegama and Keppetipola; Anthurium Village at Navalapitiya; Seafood Processing in Jaffna, Kithul Products in Ratnapura, Turmeric Farming in Poojapitiya and Mushroom Farming in Rambukkana.

In January 2021 Bank established Project Finance and Rehabilitation Unit to undertake sick business units and to rehabilitate. The Bank also formalised a number of agreements with third parties to strategically launch products for under served and previously unexplored customer segments, tying up with institutions such as the Co-operative Rural Bank Federation, the National Youth Council, the Small Entrepreneur Division and the Urban Settlement Development Authority to provide each targeted segment with financial guidance and assistance.

Additionally, the Bank renewed its Memorandum of Understanding (MoU) with the Government Medical Officers Association (GMOA) in 2021, while also formalizing new MoUs with the Institute of Chartered Accountants of Sri Lanka for a special laptop loan scheme for their students, and the New Inventors Commission to be the Official Bank for New Inventors among school children.

A pioneering MoU was signed with the University of Sri Jayawardenepura to issue branded debit cards that also alternatively function as student IDs at the University. The pilot run is currently being carried out successfully across the Faculties of Humanities and Technology with over 3,000 cards issued, and will be expanded across the entire university as a lucrative future customer segment of young

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professionals. The Bank also initiated a new tie-up Faculty of Medicine at the University of Sri Jayawardenepura to offer personal loan facilities for medical students, while also partnering with the Open University of Sri Lanka to offer students the Wisdom Loan Scheme.

With the latest additions during the year under review, our product portfolio now spans advances, deposits and multiple other products as shown below:

RETAIL BANKING	**Deposit Products** i. Current Accounts ii. Savings • *Isuru Udana* • *Sisu Udana* • YES • *Vanitha Vasana* • *Jana Jaya* • *Aswenna* • *Parinatha* • People's Relax • Normal Savings • *Ethera Wasana* iii. Fixed Deposits iv. Call Deposits	v. Foreign Currency Deposits **Advances** i. Personal Loans ii. Term Loans iii. Housing Loans iv. Pawning	**Other** i. Credit/Debit Cards ii. Gift Vouchers iii. Mobile Banking/ SMS Banking iv. Internet Banking v. Life verification certificate	
ENTERPRISE BANKING	i. Current Accounts ii. Savings Accounts iii. Fixed Deposits iv. Overdrafts v. Term Loans	vi. SME Loans vii. Development and Microfinance Loans viii. Trade Finance		
WHOLESALE BANKING	i. Current Accounts ii. Savings Accounts iii. Fixed Deposits iv. Overdrafts v. Term Loans	vi. Trade Finance • Import/Export Financing • Shipping and Bank Guarantees • Facilities for International Trade Payments (Letters of Credit, Acceptances)		
TREASURY AND INVESTMENT BANKING	i. Money Market Activities ii. Trading in Government Securities	iii. Repurchase Transactions on Government Securities iv. Foreign Exchange Transactions	v. Derivative Transactions (Forward Exchange Contracts, FX Swaps)	vi. Investment Banking Debt Structuring, Advisory Services, Trustee Services
INTERNATIONAL OPERATIONS	i. Trade Services ii. Overseas Customer Services iii. Foreign Currency Remittances	iv. Foreign Currency Deposits v. International Payment and Settlement Services		

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A number of new service offerings were also introduced during the year under review, including the introduction of an automated cheque deposit kiosk as part of the Bank's 60th anniversary celebration, providing customers the capability of depositing cheques around the clock with no requirement for staff intervention. Bank Statements were enhanced and made more secure and cost effective.

In yet another industry first, People's Bank introduced Western Union Call and Deposit Service, where customers with People's Bank accounts can avail themselves the facility via a phone call or message through WhatsApp or Viber at their convenience.

CUSTOMER EXPERIENCE MANAGEMENT

Delivering an unrivalled and exceptional customer experience is at the heart of everything we do. By understanding our customers, we map integrated solutions to address their diverse financial needs and ensure their experience is personal, relevant, instant and seamless.

Our continued digital transformation in 2021 enabled us to meet our customers' evolving needs effectively and efficiently, ensuring our services are relevant and future ready, with quick turnaround times. Our long-term success is based on customer satisfaction and loyalty, a sentiment that was further highlighted by our 15th consecutive win at the SLIM Nielsen People's Awards where the Bank was voted by the Sri Lankan public as the People's Banking Service Provider of the Year.

To further enhance our customer experience and strengthen our relationships, the Bank introduced several critical customer-centric reports to be run daily, obtaining information on customer birthdays 15 days prior to decide on a suitable birthday greeting or gift for each customer.

A number of surveys were also carried out by the Bank in 2021; a Mystery Customer Survey enabled us to identify and take corrective actions to improve service levels across select branches, while a select demographic survey of 20-60 year olds by a Marketing Research Agency helped the Bank gain valuable insight into the banking and financing requirements of the next generation of customers.

GRI 471-1, 417-2, 417-3

PRODUCT AND SERVICE LABELLING AND MARKETING COMMUNICATIONS

We respect customers' right to have fair and accurate information in order to make informed financial decisions, and disseminate clear, accurate, timely and relevant information about our products and services. The Bank's Customer Charter has been formulated in conformance to the requirements of the Central Bank of Sri Lanka (CBSL). We deliver all applicable terms and conditions pertaining to our products and services in a simple, easy to comprehend manner.

The People's Bank website provides information pertaining to interest rates on deposits and advances, exchange rates, and other applicable charges. This information is revised daily. Product and service brochures are printed in all three languages (Sinhala, Tamil, and English) with relevant information, terms and conditions. These are made available at all our branch outlets. In addition, customers can obtain necessary information by connecting with our dedicated 24-hour Call Centre.

Our marketing communications are conducted in all three languages. We ensure all marketing communications are conducted based on principles of ethical and responsible advertising according to Bank's branding guidelines. Prior to publication, all marketing communications are subject to strict scrutiny and a multilevel approval process, to ensure no misleading of the public takes place.

In 2021, we continued to educate the public further on the benefits and advantages of our new products and services via television, radio, newspapers and social media. All staff members are also continuously and thoroughly made aware of the new products and services in order to ensure clear and concise communication with customers.

During the year under review, there were no incidents of non-compliance pertaining to product and service labelling, marketing communications, or any voluntary codes or other guidelines.

GEOGRAPHICAL PRESENCE

With a total of 742 branches, 268 self-banking units (SBUs), 797 ATMs, and 10 Mobile ATM Units spread across the island, our branch network enables us to serve all Sri Lankans across urban and rural geographies with equitable access to finance and financial services. Financial inclusion is one of our material themes and 23.98% of our lending customers are from outside the Western Province, with 22.47% of disbursements during the year were made to these customers.

The performance of our branches is monitored by the Channel Management Department based on KPIs. The best performing branches are rewarded for their performance annually. The effectiveness and

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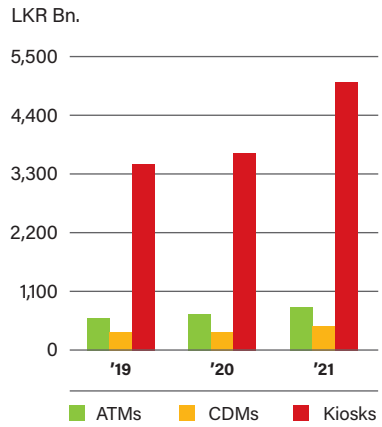
efficiency of internal controls and risk management mechanism of each branch is monitored by the Bank's Internal Audit Department.

Please refer manufactured capital on page 81 for the geographical presence of customer touch points.

SUMMARY OF VALUE OF TRANSACTIONS

VALUE OF TRANSACTIONS



GRI 203-2

INCLUSIVE BANKING

Our commitment to inclusive finance remains stronger, as we continued to expand our services to under served customer segments; We were one of the first financial institutions to have a presence in the Northern and Eastern Provinces over 58 years ago. To date, we ensure our staff serving in these regions are well conversant in all three languages, whilst also conducting our marketing communications in all three languages to provide an inclusive service. A number of 208 branches/ Service Centres and 104 SBU/ATMs across Sri Lanka provide convenient access and services to differently-abled customers.

Financial inclusion of women and minors remained prominently positioned during the year under review, with heavy focus on financial support and encouragement for female entrepreneurs. Additionally, we prioritised our services towards senior citizens and pensioners during the year under review, empowering them with easier access to banking services. In order to improve financial inclusivity, our digital services provides a six month grace period for customers on charges.

MULTICHANNEL BANKING

Our growing digital ecosystem empowers customers through solutions to all of their financial and finance-related needs. For the year under review, People's Bank utilised a multi-channel digital approach with mobile banking, internet banking, Facebook, Viber, Instagram, and WhatsApp. We have continued to improve how customers manage their money, offering increased convenience, financial insights and empowerment through digital banking. For the year under review, over LKR 688.2 Bn. worth transactions were carried out via our digital channels, with majority of our total customer base now have migrated to digital platforms.

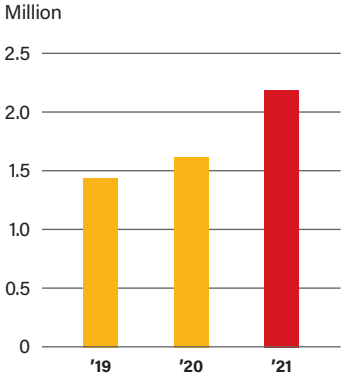
More than 1 million Mobile and internet banking customers

Close to 300,000 Facebook fan base

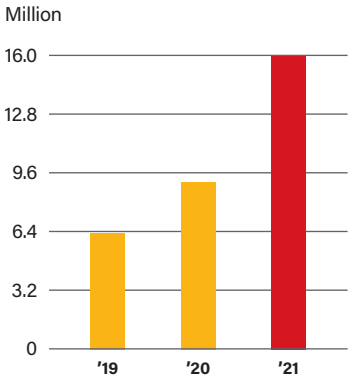
429 average Facebook inquiries every month

Average number of visitors to People's Web 99,508 monthly

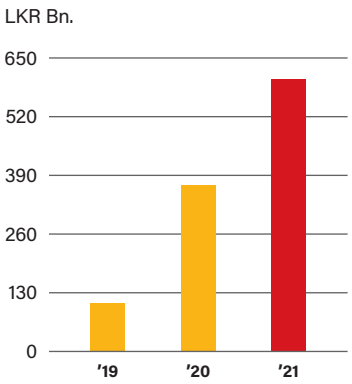
NUMBER OF CUSTOMERS - MOBILE AND INTERNET BANKING



NUMBER OF FINANCIAL TRANSACTIONS - MOBILE AND INTERNET BANKING



VALUE OF FINANCIAL TRANSACTIONS - MOBILE AND INTERNET BANKING



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OUR CALL CENTRE

Coinciding with our increasing presence online is our improved engagement with customers through our dedicated 24*7 Call Centre. We made specialised resources, information and content available in all three languages to address customer queries and create awareness on not only Banking products and services but also on health and safety regulations.

CUSTOMER CAPACITY DEVELOPMENT

Aside from the readily available information on Banking products and services from multiple print, media and digital content, we strive to empower our customers through structured customer educational programmes and customer engagement initiatives. During the year under review, a number of programmes were conducted to drive our mandate of digitally equipping our customers and bridging both the social and digital divide.

Customer education programmes conducted in 2021:

Programme/ initiative	Objective/description	Region/ district	Number of participants
Health Awareness Programme	Health awareness programme for female staff members	Colombo	300

CUSTOMER GRIEVANCES

A structured customer complaint and grievance procedure is in place to resolve customer complaints fairly, effectively, and speedily. This is communicated to all our customers via our branches and our corporate website. A customer can elevate the grievance to the Financial Ombudsman in the event there is dissatisfaction with our grievance resolution process. The contact details of the Financial Ombudsman are displayed at every branch.

Through our 24-hour customer service hotline and dedicated Customer Complaint Handling Unit we ensure all grievances are recorded and responded to within a specific time period. The relevant regional manager is responsible for investigating and responding to the grievances falling under each specific region. Any recurring complaints and grievances relating to employees are directed to the Bank's Internal Investigations and Inquiries Department for review and action. Employees are kept informed about customer complaints at the monthly branch managers' conferences and corrective action is recommended to avert recurrence.

Complaints pertaining to breakdown of ATMs are monitored by the Central ATM Control Department. A robust mechanism has been instituted to ensure every breakdown is reported to the relevant branch and prompt action is taken within a reasonable time. This has resulted in a significant decline in the number of ATM breakdowns. Our ATM uptime has been on average 99.64% in 2021.

A total of 2,845 staff members elevated their product knowledge to minimise customer complaints by participating in four training sessions during the year under review.

Details of Customer Complaints Received in 2021

Details	Number
Number of customer complaints received	1,954
Number of customer complaints resolved	1,829
Pending complaints	115
Pending investigations	9
Pending legal cases	1
In progress	125

GRI 416-1, 416-2

CUSTOMER HEALTH AND SAFETY

Customer health and safety is a material aspect and we have taken utmost care to design our branches and all contact points to eliminate any adverse impacts to the health and safety of our customers. To safeguard our branch premises, all buildings have fire extinguishers, fire exits, fire sirens and are protected by armed and non-armed security guards.

Several health and safety protocols were implemented according to Government guidelines at all our branches, SBUs, and other customer touchpoints to ensure the safety and well-being of customers following the outbreak of the COVID-19 pandemic.

FRAUD PREVENTION

A dual control mechanism has been implemented to prevent fraud, by ensuring every transaction is checked and authorised by at least two independent managers. Every branch is subject to a strict audit process by their respective in-house audit department, the Bank's internal audit department, and the annual external and Central Bank audit.

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GRI 418-1

CUSTOMER PRIVACY

Stringent measures have been implemented to protect customer privacy and maintain a high standard of confidentiality across People's Bank. We continue to strengthen our IT and cyber security framework to ensure confidential customer data is safeguarded. We have several controls in place including regular IT vulnerability assessments, network upgrades, IT audits by third parties and ongoing employee training on IT security aspects. During the year under review, there were no incidents of non-compliance reported due to breaching of customer privacy.

SALE OF BANNED OR DISPUTED PRODUCTS

In strict compliance to the CBSL Customer Charter, we do not sell or market products or services which are banned in the market or subject to stakeholder or public debate. We do not finance any illegal project, which is documented as illegal in our credit policy. There were no incidents of non-compliance with the sale of banned or disputed products.

FUTURE OUTLOOK

People's Bank will continue to build Customer Capital by strengthening customer relationships; enhancing customer experiences, elevating customer service excellence, and driving an inclusive, customer-centric work culture across the Bank. We will also leverage our evolving and growing suite of products, solutions and digital capabilities to offer a compelling value proposition to customers. We will continue to enhance the customer digital experience and drive efficiencies by simplifying and streamlining operations, so that they are provided with ample opportunities to plan and achieve financial independence while contributing to developing the country's economy.

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"The products and services that allow us to operate and execute our strategy are provided by our business partners, who are considered essential part of our service delivery. These relationships are key to our value creation process and hold an important place in the banking mechanism"

BUSINESS PARTNER CAPITAL

GRI 204-1

OUR APPROACH

Our key approach to business partner capital is to have a responsible and transparent purchasing policy consistent with our business ethics, whilst also viewing the supplier development process as proactive and collaborative. Our sustainable supply chain is maintained through fair, equitable tender processes and we practice transparency and efficiency in contract management. Through our rigorous adherence to all industry regulations, transparent operating procedures, ethical business practices, and the discharging of our debt obligations in a timely manner, we continue to create shared value. By collaborating with over 378 business partners, we created value of an estimated LKR 12.3 Bn. during 2021.

KEY HIGHLIGHTS

- 258 Suppliers
- 258 suppliers from local communities
- Over 95% of the value created for suppliers of local origin
- Relationships with 42 correspondent banks and 78 Vostro agents

MATERIAL THEMES

- Operational efficiency
- Supplier value creation

CHALLENGES

- Disruptions to supply continuity where suppliers were materially impacted by COVID-19
- Postponing the opening of tenders and adopting an online tender process due to safety regulations
- Government's import restriction caused delays in procurement of certain imported supplies

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OUR IMPACT

GENDER EQUALITY

Empower women to effectively participate in leadership at all levels of decision-making

DECENT WORK AND ECONOMIC GROWTH

Enable people to have quality jobs that stimulate the economy without causing harm to the environment

SUSTAINABLE CITIES AND COMMUNITIES

Operate sustainable supply chains that engage all from producer to final consumer

CLIMATE ACTION

Promote responsible procurement and environmentally friendly practices in suppliers

PARTNERSHIPS FOR THE GOALS

Collaborate with diverse business partners to create shared value for our stakeholders

VALUE CREATED

- LKR 12.3 Bn. paid to suppliers
- LKR 11.7 Bn. paid to local suppliers

CAPITAL LINKAGES

FINANCIAL CAPITAL

- Efficient supply chain management improves productivity and derives cost savings

NATURAL CAPITAL

- Encouraging suppliers to adopt sustainable practices to improve energy use helps minimise environmental impact
- Subjecting all suppliers to a stringent screening process promotes environmental and social sustainability
- Ensuring that goods and services procured by the Bank are made, delivered, and disposed of in a socially and environmentally responsible way enhances natural capital

MANUFACTURED CAPITAL

- Investment in digitalisation and improvement in procurement processes increase manufactured capital

INTELLECTUAL CAPITAL

- COVID-19 induced digital tender processes improve efficiency
- Ethical business practices help build strong business partner relationships

HUMAN CAPITAL

- Training in supply chain management helps to enhance business partner capital

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Business growth partners	Correspondent banks
	Vostro agents
	Franchise partners
	State institutions
Suppliers	Utility service providers
	Materials suppliers
	Fixed assets suppliers
	Travel and transport
Maintenance partners	Software suppliers
	Waste management
	Communication
	Debt collection agencies
	Human resource providers
Others	Contractors
	Premises providers

Number of registered suppliers		Number of correspondent banks		Number of Vostro agents		Payments to suppliers LKR Bn.	
2017	2018	2017	2018	2017	2018	2017	2018
662	383	46	43	72	73	11.2	12.8
2019	2020	2019	2020	2019	2020	2019	2020
242	242	42	42	71	71	12.2	11.1
2021		2021		2021		2021	
258		42		78		12.3	

GRI 102-9, 102-10

SUPPLY CHAIN MANAGEMENT

At People's Bank we view supply chain management as a two-pronged approach. On one hand, we wish to maintain the concept of "value for money" in our supply chain process and as such, we maximise economy and efficiency in all procurements to achieve the least cost whilst uncompromising quality. Simultaneously, we also wish to maintain strong supplier relationships that will ensure timely deliveries of products and services, especially when deemed urgent. As such, for People's Bank, successful supply chain management is both efficient procurement and effective supplier relationships.

Procurement policy

- The procurement policy at the Bank follows the Government Procurement Manual and is designed in line with Bank responsibilities and interests whilst also sustaining a mutually ethical vender relationship
- It is imperative that procurement is a consistent and stable function that maintains the continuous supply of goods and services necessary to support the services, activities, and sales efforts of the Bank
- Procurement policies are adapted and changed to minimise procurement times and avoid bottlenecks
- All technical specifications are carefully evaluated by the TEC committees before procuring items
- The TEC committees prepare budgets (CAPEX and OPEX), procurement plans, and action plans for all activities, dividing responsibilities among staff members according to subject knowledge and organisational structure

Supplier relationship management

- Supplier relationship at the Bank is a collaborative effort where both parties ensure quality and compliance whilst sharing product and service responsibilities
- New suppliers register every year through a formal Board approved tender procedure which is followed by a stringent screening process
- The Bank calls global tenders for high leverage and critical items- such as DI cards and IT equipment- and maintains global partnerships with selected suppliers
- Suppliers are screened for environmental and social impacts to ensure that Central Environmental Authority (CEA) regulations are met, and labour is legally sourced (no child labour/ forced labour)
- COVID-19 related restrictions have resulted in an online tender process outlined below:

Tenders are called for through a dedicated email while tenders are opened through Zoom to ensure transparency. Adhering to the mandatory requirement of the Finance Ministry, the Bank commenced registering our suppliers on the Electronic Government Procurement (e-GP) system. This system aims to achieve greater performance in terms of efficiency, transparency, competition, fairness, and value for money.

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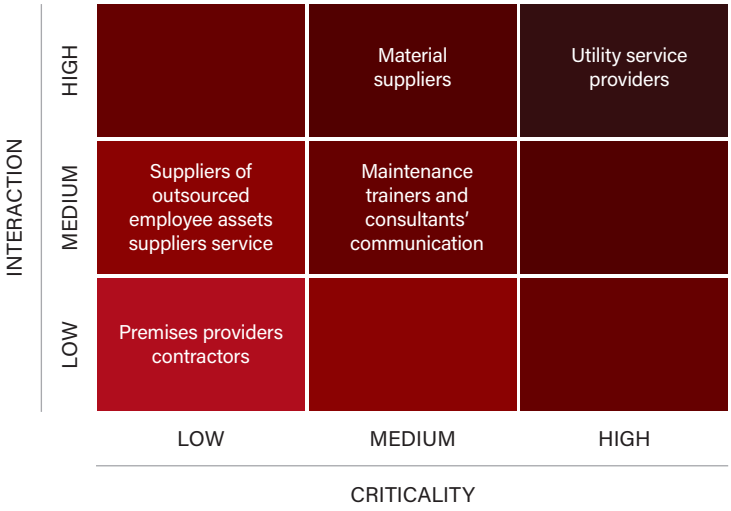
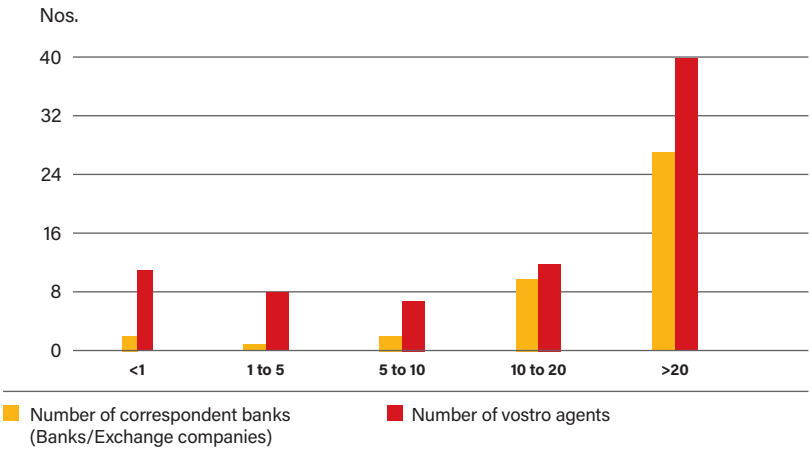


BUSINESS PARTNER RELATIONSHIPS

We are proud of our solid, mutually beneficial relationships with 42 correspondent banks and 78 vostro agents. Most of these relationships span over 24 years of mutual trust.

Business partners	Length of relationship (Years)				
	<1	1-5	5-10	10-20	>20
Number of correspondent banks	2	1	2	10	27
Number of Vostro agents (Banks/ Exchange companies)	11	8	7	12	40

LENGTH OF RELATIONSHIP (YEARS)



GRI 102-13

MEMBERSHIP IN INDUSTRY ASSOCIATIONS

Banking is an industry that has membership across several associated businesses as these ties enable us to keep abreast of local and international best practices which affect the banking industry. Common membership also facilitates better industry standards, networking, and unity. People's Bank holds membership in the following organisations:

- Institute of Bankers of Sri Lanka
- The Ceylon Chamber of Commerce
- Sri Lanka Bankers Association (Guarantee) Ltd.
- The Association of Banking Sector Risk Professionals – Sri Lanka
- Chartered Institute of Personal Management - Sri Lanka
- Asia Pacific Rural and Agriculture Credit Association
- The Association of Compliance Officers of the Bank, Sri Lanka
- The Financial Ombudsman Sri Lanka (Guarantee) Ltd.
- Clearing Association of Bankers
- Employers' Federation of Sri Lanka
- Association of Primary Dealers

GRI 308

SUPPLIER ENVIRONMENTAL ASSESSMENT

The Bank only works with suppliers, authorised dealers, manufacturers, and contractors who comply with environmental rules and regulations. Laws such as the National Environment Act and the Bank's own environmental sustainability policy pose a moral and ethical bar when screening potential suppliers.

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GRI 408

CHILD LABOUR

As a state-bank, we are keenly aware of our social responsibility, especially to the younger generations. We take violations of child rights very seriously and stringently screen all suppliers, authorised dealers, manufacturers, and contractors for child labour violations. It is a must that all suppliers comply with the Sri Lankan laws and regulations related to child labour.

ETHICAL PRACTICES

Our ethical practices in business capital management are in line with Government regulations and in compliance with our own procurement manual:

- Transparent tender procedures are followed for all procurements
- Environmental and social concerns are embedded in our procurement process through the adoption of a stringent supplier screening mechanism
- Our suppliers, contractors, and consultants are expected to maintain highest standards of ethics
- All information pertaining to our suppliers are treated with utmost confidentiality
- We add value by providing feedback, ensuring highest standards of quality are met, and through timely payments

FUTURE OUTLOOK

Our relationship with our business partners will continue to be collaborative and adhere to ethical business practices. We hope to enter more strategic partnerships that will enhance our supply chain management and increase savings. In terms of digitalisation, we wish to ensure that all our suppliers move onto the (e-GP) system, thereby increasing the transparency and fairness of our processes. Overall, we are committed to a mutually fulfilling relationship with our business partners.

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"Having long-established our position as one of Sri Lanka's leading financial institutions, People's Bank has been a key provider of both financial assistance and earnings to our Shareholder - the Government of Sri Lanka"

INVESTOR CAPITAL

OUR APPROACH

Maintaining a high level of integrity and transparency in our operations by effectively and regularly communicating a concise, relevant and balanced view of the Bank's operational results, financial position and cash flows helps boost investor confidence in People's Bank. Given our strong portfolio quality and growing asset base, we also maintain a strong capital adequacy position to be able to withstand stressed or unprecedented conditions as proven by our recovering numbers during the year under review following the COVID-19 pandemic. Holding our liquidity position healthy within liquidity risk appetite and continued investment in infrastructure, process re-engineering, people, and technology, helps deliver improved operational resilience.

KEY HIGHLIGHTS

- Return on equity increased to 19.9%

MATERIAL THEMES

- All material topics listed from pages 55 to 60 in the Materiality section of this Report

CHALLENGES

- The rapid adoption of new regulatory mandates issued by the Central Bank of Sri Lanka, and the effective and immediate communication to all shareholders of the Bank
- Low interest margins

OUR IMPACT

DECENT WORK AND ECONOMIC GROWTH

Strong and consistent financial performance of the Bank contributes to inclusive and sustainable economic growth, richer job opportunities and a stimulating work environment

PEACE, JUSTICE AND STRONG INSTITUTIONS

Strong governance, business ethics and prudent management decisions contribute towards sustaining a strong and resilient Bank that in turn remains more appealing to investors

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VALUE CREATED

- LKR 2,197 Mn. dividends paid to shareholders

CAPITAL LINKAGES

FINANCIAL CAPITAL

- Sustainable growth in revenue and profit through prudent management decisions and risk management increases investor capital

NATURAL CAPITAL

- Continued investments in digitalisation and automation contributes to a decreasing carbon footprint

HUMAN CAPITAL

- Competent, qualified and trained employees with enhanced capabilities who implement the strategic plan of the Bank to achieve sustainable and profitable growth

INTELLECTUAL CAPITAL

- Industry leadership in digitalisation and innovation coupled with strong brand equity and tacit knowledge contributes towards increasing investor capital and vested interest

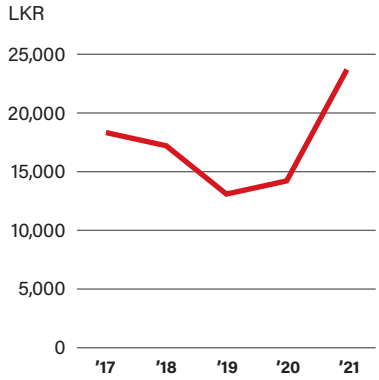
MANUFACTURED CAPITAL

- Investment in ICT infrastructure, property, plant and machinery supports value creation that enhances investor capital and increases investor interest

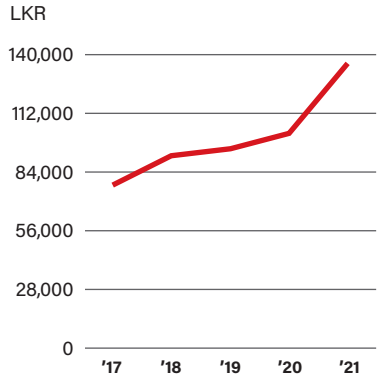
INVESTOR CAPITAL STATISTICS

Earnings per Share (LKR)		Net Assets per Share (LKR)		Return on Assets (%)		Return on Equity (%)	
2017	2018	2017	2018	2017	2018	2017	2018
18,250	17,095	77,457	91,210	1.9	1.5	26.6	20.3
2019	2020	2019	2020	2019	2020	2019	2020
12,926	14,175	94,964	101,984	1.1	1.0	13.9	14.4
2021		2021		2021		2021	
23,720		136,077		1.2		19.9	

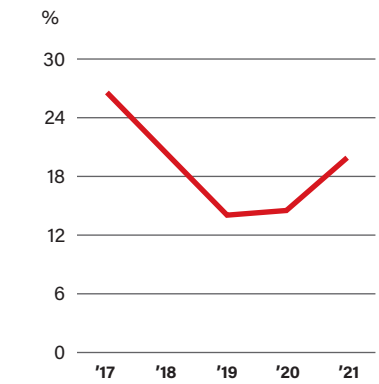
EARNINGS PER SHARE



NET ASSETS PER SHARE



RETURN ON EQUITY



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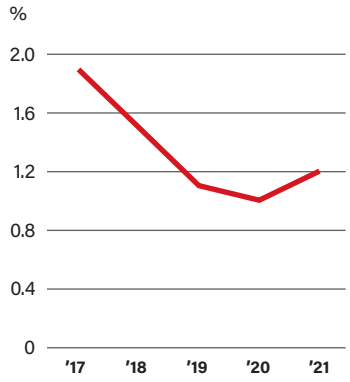
RETURN ON ASSETS



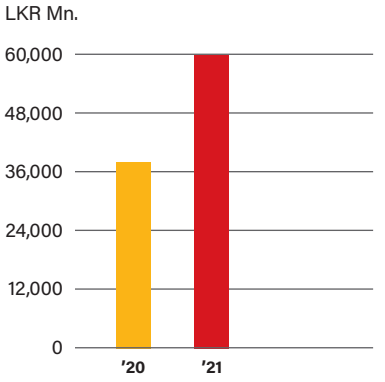
SHAREHOLDER PROFILE

Our principal shareholder is the Government of Sri Lanka holding a 92.27% stake, with the balance 7.73% shares held by Corporative Societies.

ECONOMIC VALUE ADDED (EVA)

We believe that real profitability for our shareholders occur when surplus value is created on their investments. People's Bank strives to deliver optimal value to our shareholders through the strategic utilisation of capital and higher profit generation. The EVA created in 2021 amounted to LKR 59.9 Bn.

ECONOMIC VALUE ADDED



For the year ended December 31,	2021 LKR '000	2020 LKR '000	Change %
Invested Equity			
Shareholders' funds	136,077,096	101,983,598	33.4%
Add: Allowance for expected credit losses	101,277,028	87,886,600	15.2%
Total	237,354,124	189,870,198	25.0%
Earnings			
Profit after Taxation	23,720,143	14,174,943	67.3%
Add: Impairment charge	14,472,820	11,567,174	25.1%
Less: Loans written off	(187,681)	(412,843)	-54.5%
Total	38,005,282	25,329,274	50.0%
Cost of Equity (Based on 12 months weighted average Treasury Bill + 2% for risk premium)	10.2%	7.0%	
Cost of Average Equity	21,873,885	12,694,950	72.3%
Economic Value Added	59,879,167	38,024,224	57.5%

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DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTION

The Direct Economic Value Generated and Distributed indicates the wealth that we create for our stakeholders, and the subsequent allocation of our income that is retained for our growth. The table below shows the Bank's contribution to the Sri Lankan economy over the last five years.

For the year ended December 31,	Growth % 2021 vs 2020	2021 LKR '000	2020 LKR '000	2019 LKR '000	2018 LKR '000	2017 LKR '000
SOURCES OF INCOME						
Interest	9.8%	197,330,011	179,717,526	186,714,218	166,441,208	149,184,471
Exchange	-129.1%	(965,361)	3,311,844	800,416	6,016,099	2,119,499
Commission and Fees	23.0%	8,268,168	6,723,826	7,336,594	6,956,292	5,132,907
Capital Gain	-57.4%	143,459	336,495	329,071	162,923	125,763
Other	177.3%	2,473,543	892,017	4,548,686	1,707,356	4,272,751
Total	8.5%	207,249,820	190,981,708	199,728,985	181,283,878	160,835,391
UTILISATION OF INCOME						
To Depositors/borrowers as Interest	-3.3%	114,869,171	118,783,744	125,507,699	111,034,922	98,718,636
To Employees as Emoluments	15.4%	22,711,335	19,685,506	19,226,233	19,504,835	14,738,069
To Providers of Goods and services	10.3%	12,276,709	11,128,830	12,153,293	12,822,211	11,168,408
Net Impairment Loss on Financial Assets	25.1%	14,472,820	11,567,174	8,488,026	2,623,970	1,348,460
To the Government – Taxes, Special Levy and Dividend	13.0%	16,328,960	14,444,917	19,817,027	19,814,596	20,522,887
To the Community	55.9%	12,665	28,703	35,683	42,288	56,317
Retained for growth	73.2%	26,578,159	15,342,833	14,501,024	15,441,056	14,282,614
Total	8.5%	207,249,820	190,981,708	199,728,985	181,283,878	160,835,391

Note: Above figures have been derived from the Audited Financial Statements that were prepared based on the Sri Lanka Accounting Standards (SLFRS/LKAS).

DIVIDEND PAYMENT AND DIVIDEND POLICY

We have structured our dividend pay-out to shareholders at a consistent frequency based on our dividend policy, which supports both shareholders' returns and the Bank's long-term business expansion. Dividend payment for 2021 amounted to LKR 2,197 Mn.

FUTURE OUTLOOK

People's Bank will continue to sustain our investor confidence through consistent, effective communication, and nurture our long-standing investor relationships by generating increased profits, delivering attractive financial returns and by increasing overall shareholder value through sustainable and prudent growth.

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"As a leading financial services provider with the widest reach and the largest customer base, People's Bank plays a significant role in society. **A key duty of our leadership position is to promote the socioeconomic development across the country by investing in our communities and uplifting the lives and livelihoods of our customers.** Aiding these communities to develop, seek better prospects, and to consistently help improve the quality of their life has always been an integral part of the Bank's mission"

COMMUNITY CAPITAL

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OUR APPROACH

"As a responsible state bank, the People's Bank is always mindful of its national obligation"- Mr Ranjith Kodituwakku, CEO/GM

The Bank values its position as a national institution and endeavours to give back to the community at every possible juncture. For us, community capital is not a mere obligation but a social investment that we celebrate, as it seeks to encourage growth by touching and transforming the lives of local people in communities throughout Sri Lanka.

Guided by the maxim of sustainability and empowerment, our CSR programmes have sought to enrich society and enhance quality of life through inclusive finance. A key policy line has been the promotion of financial literacy and business acumen which then equips people with the skills and capabilities needed to manage their finances, leading to financial stability and financial independence, thereby benefitting society as a whole. As such, we have been particularly focused on assisting and facilitating emerging sectors of society and disadvantaged groups.

Our strategies for uplifting and developing the community have focused on increasing access to education through investments in technology and expertise, stimulating economic growth by supporting small scale farmers and entrepreneurs, and investing in healthcare initiatives. Whilst seeking to build a foundation of prosperity through finance, education and health, we have also strived to further strengthen the structure of our very community through nourishing arts and culture, promoting community cohesion and cultivating a cultural identity.

KEY HIGHLIGHTS

- LKR 12.7 Mn. invested in community development

MATERIAL THEMES

- Socio-economic impacts

CHALLENGES

- COVID–19 continued to make it challenging for communities to access employment and finance
- Continued social distancing and health guidelines meant that staff could not volunteer at CSR activities

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OUR IMPACT

NO POVERTY

Reducing poverty through inclusive financing, education, and job opportunities

ZERO HUNGER

Sustaining agricultural production through providing inclusive finance for small scale farmers

GOOD HEALTH AND WELL BEING

Strengthening health systems through funds targeting infrastructure development and safeguarding the health and well-being of communities through awareness campaigns

QUALITY EDUCATION

Supporting education through scholarships and funding

PARTNERSHIPS FOR THE GOALS

Enabling tangible change through projects that partner with the communities around us

VALUE CREATED

- Supported 3,066 SMEs affected by the pandemic towards economic recovery

CAPITAL LINKAGES

FINANCIAL CAPITAL

- While investment in community development activities depletes financial capital, it is utilized to extend community-based development loans which are essential for community capital

NATURAL CAPITAL

- Our Self-Banking Units have contributed to less-paper consumption through enabling communities to transact digitally

MANUFACTURED CAPITAL

- Our Self-Banking Units provide remote communities with easier and more convenient access to banking services

INTELLECTUAL CAPITAL

- Our investment in CSR activities builds our brand image and reputation as a socially responsible company

HUMAN CAPITAL

- Staff volunteering for CSR activities create socially aware individuals whilst also building team-spirit
- Recruiting volunteers from local communities equips them to improve communal standards of living

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Investment in CSR LKR Mn.		Community based development loans Number		Community based development loans LKR Mn.	
2017	2018	2017	2018	2017	2018
56.3	42.3	51,375	42,511	10,479.2	9,017.6
2019	2020	2019	2020	2019	2020
35.7	28.7	31,686	37,064	7,852.4	22,967.2
2021		2021		2021	
12.7		32,260		16,544.9	

Our structured CSR programmes focus on strengthening and promoting health and other social activities, education, arts and culture, and protecting the environment. As such, our funding, investments, and financial solutions benefit diverse communal groups and individuals. The table below highlights our spending in these key areas.

INVESTMENT IN CSR PROJECTS IN 2021

Category	Amount LKR '000
Art and culture	977
Education	3.123
Environment	615
Health and other social activities	7,950
Total	12,665

HEALTH AND OTHER SOCIAL ACTIVITIES

We firmly believe that the health of our society lies at the core of our national responsibility, and we are committed to ensuring that the communities we live in remain healthy, happy ones through sustained investment.

Purchase of COVID-19 Vaccines

Given the difficult circumstances around the COVID-19 pandemic and the urgent need for vaccinations, the Bank played a crucial role in obtaining the very first batch of Oxford/ AstraZeneca Covishield vaccines. Utilising a Trade Loan extended by HSBC, the People's Bank enabled the government to procure the first 500,000 doses of vaccines.

The "Birth of Freedom" Programme:

In partnership with the Castle Street Hospital for Women and the De Soysa Maternity Hospital, People's Bank set up the "Birth of Freedom" programme, held every Independence Day. Under this venture, People's Bank gifts LKR 2,000 worth of "*Isuru Udana*" Gift Certificates to every baby born between the 01 of February and 07 of February. The Bank symbolically presented the "*Isuru Udana*" vouchers and other gifts to the Directors of the Castle Street Hospital for Women and De Soysa Maternity Hospital.

Renovation and Modernisation of the Sri Jinarathana Vocational Technical Training Centre

Established by the Gangaramaya Temple in 1978, the Sri Jinarathana Vocational Technical Training Centre is one of the leading vocational training centres in the country. The main objective of this institution is to impart professional knowledge to those who were unable to complete their schooling, thereby enabling them secure future careers. Considering the long-term relationship between the Gangaramaya Temple and People's Bank, the Bank has granted LKR 7.5 Mn. to fund the renovation and modernisation of the institution's facilities.

Donating temperature readers

As a measure of prevention/protection against COVID-19 in Batticaloa region, the Bank donated temperature readers to Deputy Regional Director of health services (RDHS).

EDUCATION

People's Bank recognises that education is one of the most important tools of social and economic growth. A stimulus and a catalyst, it empowers individuals and society, imparting and disseminating knowledge, skills, and expertise.

Youth Centred Projects

The power of youth is one of the most dynamic forces in our society. In order to harness and develop this force, the Bank pioneered a number of social, financial, and educational initiatives. Living up to our reputation as the 'Bank of aspiring Sri Lankans,' we invested heavily in the future of our youth, mobilising over LKR 143.2 Bn. through our digitally enabled Youth Savings Account to energise this vital segment of our society. With LKR 350.5 Mn. granted to university students for the purchase

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of laptops, we have sought to make essential technology more affordable and have made 1,340 vocational and technical training opportunities available for young people across the country.

School Inventors' Club

Collaborating with the Sri Lanka Inventors' Commission (SLIC), People's Bank stepped forward to assist budding inventors by establishing a programme to strengthen "School Inventors' Clubs" across the island. These clubs are the launching pads for ideas and make up an essential component in the creation of an 'innovation culture' across the country. As an initial step, financial assistance will be extended to set up Inventors Clubs in selected schools with a view to nurturing new inventions and innovative ideas amongst the most promising student inventors.

People's Bank joins hands with the ETF to award scholarships to members' children

For the 11th consecutive year, People's Bank joined hands with the Employees' Trust Fund (ETF) to reward children of ETF members who had excelled in the Grade 5 scholarship examination. Under Phase 1 of this initiative, ETF Chairman presented the cheque for this purpose to His Excellency the Prime Minister Mahinda Rajapaksa and People's Bank Chairman Sujeewa Rajapakse at an official event held at Temple Trees recently.

Presented a laptop and other education-related equipment to Dewmi Ransara for her excellence in G.C.E. Ordinary Level (O/L)

The People's Bank presented a laptop and other education-related equipment to Dewmi Ransara, a differently-abled student from Rathmale Bambaranda Saddharma Maha Vidyalaya who passed the G.C.E. Ordinary Level (O/L) examination with flying colours obtaining 9 A passes.

School Book Project

The Bank's Buddhist Society as an annual event carries out the school book project, which focuses on addressing the needs of school children in rural areas. This large-scale island-wide project has gained the recognition and appreciation of the communities in which we operate.

ARTS AND CULTURE

Arts and culture form an essential part of communal life. We at People's Bank support arts and culture because it provides a common platform to appreciate diversity, connects people and promotes meaningful interactions, thereby creating a progressive, inclusive society.

"Sithuwili Sittam" Competition

The National Child Protection Authority organised an all-island art, poster, and cartoon competition by the name of "Sithuwili Sittam", with People's Bank as the main sponsor donating LKR 1.0 Mn. towards the endeavour. The competition's aim was to provide children with a creative outlet at a time when they were confined to their homes due to the COVID-19 pandemic. The Bank was honoured to be part of such a programme as we value our children's psychological wellbeing and wished to support them through the pandemic.

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Credit Facilities for Artists

During 2021, the Bank extended over LKR 554.9 Mn. in credit facilities to artists of multiple disciplines and from many walks of life. We believe that the arts are worthy of investment as they speak to the soul of a community and evoke a sense of togetherness.

Week-long Pirith ceremony at Anuradhapura Mirisawetiya Stupa

A week-long Pirith recital was carried out at the historic Mirisawetiya Stupa in Anuradhapura to invoke blessings for the battle to eradicate the ongoing COVID-19 pandemic in Sri Lanka and the world. People's Bank supported the Pirith recital held on 11 September, which was the fifth of the seven days.

ENVIRONMENT

The Bank is deeply committed to being a responsible institution that upholds environmental sustainability practices. As such, we have taken a keen interesting in funding sustainable, environmentally-friendly projects across the country.

Renewable Energy Projects

Renewable energy is an integral part of People's Bank's vision for the future. Whilst systematically reducing our carbon footprint, we have embarked on a series of activities related to the generation of renewable energy across the Branch network which are in line with the Bank's Green Banking Environmental Sustainability Policy.

As the pilot project, the Maintenance Engineering Department of the Support Services Department has commenced installing solar panels in 20 People's Bank branches. We are also taking steps to encourage our customers to use renewable energy. With the aid of a refinancing line from ADB, the Bank has introduced a Solar Power loan scheme to its customers and has disbursed LKR 1,195 Mn. to date.

Reimbursement of Expenses - Welimada Eco-Park

The People's Bank initiated an eco-park development project in Welimada in 2019 with the aim of reducing its carbon footprint. The trees that were planted initially are now growing under the close supervision of a team of agricultural specialists who apply fertilisers, manure, pesticides, and we decide to sustain and protect the trees. The annual maintenance cost of nearly LKR 700,000 inclusive of hired labour was borne by People's Bank in 2021.

Special Loan Schemes- Empowering the Disempowered

People's Bank is both aware and sensitive to social inequality and is determined to ensure that all sections of society benefit from the Bank's investments. As such, the Bank has extended over LKR 5.5 Bn. in loans to retired and disabled officers of the Sri Lanka armed forces, over LKR 77.1 Bn. in loans to government pensioners and senior citizens, and a total of LKR 533.5 Mn. in financial support to women entrepreneurs under the *"Vanitha Sawiya"*s programme.

On International Women's Day, the Bank also introduced a variety of initiatives to support and advance the position of women. These included an exclusive debit card for the benefit of *"Vanitha Vasana"* account holders and two special banking products; the "Smart Ladies Deposit Certificate" and the *"Vanitha Vasana"* Money Planner Investment Plan, which would enable *"Vanitha Vasana"* account holders to increase their savings. In accordance with these goals, a special programme named *"Diyaniya"* was conducted the day after, to celebrate the role of women as "daughters" in guiding and nurturing society.

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Loan Scheme	Eligible Segment
Special loan scheme for retired and disabled officers of Three Armed Forces	Retired and disabled officers
People's Pension Loan Scheme	Government pensioners and senior citizens
"Vanitha Sawiya" programme	Women entrepreneurs

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COMMUNITY-BASED DEVELOPMENT LENDING

Community-based lending is an integral part of the Bank's strategy to empower and improve livelihoods through inclusivity and advocacy, and the Bank has introduced several community-based development lending initiatives to help rural communities grow and prosper. During 2021, People's Bank funded 19,524 loans for community-based development worth a total of LKR 8,991.47 Mn. Through refinancing, the Bank was also responsible for distributing another 12,736 in community development loans, amounting to a total of LKR 7,553.4 Mn. These loans have targeted a wide range of sectors, among which the largest commitment has been to the agricultural sector which has received 10,270 loans financed directly by the Bank amounting to LKR 7,612 Mn., with another 2,509 loans being made through refinance loans amounting to LKR 772.58 Mn.

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	As at end December 2021			
	Funded by the Bank		Funded through Refinance Schemes	
	Number of loans	Outstanding amount LKR Mn.	Number of loans	Outstanding amount LKR Mn.
Agriculture	10,270	7,612.34	2,509	772.58
Commercial	1,038	318.10	5,768	4,312.53
Consumption	9	6.84	13	6.72
Financial	44	11.61	81	60.12
Housing and property development	20	4.49	54	57.06
Industrial	403	58.85	1,358	790.37
Other economic activities	7,547	860.99	1,237	201.91
Services	164	52.80	1,557	995.03
Tourism	29	65.45	159	357.08
Grand total	19,524	8,991.47	12,736	7,553.40

FUTURE OUTLOOK

As the "Bank of the People" with a widespread grassroots network, the needs of the local communities within which we work remains a key concern. We will continue to nurture our community capital bearing in mind the areas that are of strategic importance to our operations and the sustainable progress of our nation.

NATURAL CAPITAL

"The long-standing, mutually beneficial relationships we have nurtured over the decades with our stakeholders provided us with the strength and direction to navigate through unprecedented times. **These same relationships form the basis of our future-strategic direction and our decision-making process, affording us the social and legal licence to operate as the exemplary, socially responsible Bank of the People.** This section outlines our efforts in strengthening and sustaining our affiliations with our customers, business partners, investors and communities"

OUR APPROACH

As per our Environment Sustainability Statement, we aim to systematically conduct our banking operations in an environmentally responsible manner in alignment with the vision of Peoples' Bank, taking the initiative to conduct our business processes, procedures, and internal housekeeping with minimum environmental impacts. We attain this through incorporating leading environmental practices into our business strategy and operations, and fostering environmental awareness and responsibility among Bank's employees, clients, and suppliers. In practice, this means that we reduce our overall GHG (Green House Gas) emissions through increasing the efficiency of our products and services, leading to optimal energy, waste, and resource management. Our digital banking drive and green banking concessionary loan scheme to eco-friendly businesses have extended our values to wider society as well.

KEY HIGHLIGHTS

- 20 solar branches installed
- 499,230 mobile banking customers
- 1,629.4 tonnes of CO_2 emissions reduced and/or offset
- 613,509 accounts opened digitally in 2021
- 1,732,570 accounts opened digitally as at 31 December 2021

MATERIAL THEMES

- Compliance with environmental standards in business practice
- Responsible lending
- Reduction of the Bank's carbon footprint

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CHALLENGES

- Needing to relocate the Head Office due to concerns over the structural stability of the current building
- Air conditions taking up to 60% of electricity bills in some branches
- Inefficiencies in switching off lights when exiting rooms/buildings

VALUE CREATED

- Recycled approximately 6,663kg of paper
- Future reduction of 50%-90% on electricity bills through the 30 solar branches in 2022

OUR IMPACT

CLEAN WATER

Conserving water use across the Bank network through the promotion of responsible consumption coupled with conservation measures

AFFORDABLE AND CLEAN ENERGY

Harnessing solar power to build green branches and convert existing branches to solar energy

SUSTAINABLE CITIES AND COMMUNITIES

Integrating environmental sustainability into all Bank operations that involve the wider community

RESPONSIBLE CONSUMPTION AND PRODUCTION

Digitalising the Bank's operations to promote paperless banking

CLIMATE ACTION

Measuring and reducing the Bank's carbon footprint through investing in green buildings and practicing responsible water, waste, and energy management

LIFE BELOW WATER

Maintaining sustainable water practices and implementing conservation initiatives that protect life below water

LIFE ON LAND

Maintaining sustainable use of land resources and implementing conservation initiatives that protect life on land

PARTNERSHIPS FOR THE GOALS

Engaging in collaborations across the value chain that combat climate change

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CAPITAL LINKAGES

FINANCIAL CAPITAL

- While financial capital depletes in the short-term when installing renewable energy and implementing environmental sustainability measures, it sees longer-term cost savings due to reducing energy costs.

HUMAN CAPITAL

- An environment conscious culture creates employees who are aware and engaged with conservation initiatives
- A united environmental cause promotes team spirit as well as self-awareness around natural resources, thereby promoting a holistic individual

MANUFACTURED CAPITAL

- Constructing carbon neutral buildings and installing renewable energy contributes to manufactured capital
- All our construction projects adopt the GreenSL® Rating System of the Green Building Council of Sri Lanka (GBCSL), of which we are a Platinum Life Member

INTELLECTUAL CAPITAL

- Confidence and trust in our brand reputation is strengthened through our environmental sustainability initiatives
- The governance structure of the Bank guarantees our complicity with all applicable rules and regulations, ensuring that our responsible and ethical actions towards natural resource support environmental sustainability

SOCIAL AND RELATIONSHIP CAPITAL

- Our focus on environmental sustainability translates to customer confidence and compliance with applicable environmental regulations
- Responsible lending and the promotion of environmentally friendly practices across our value chain directly impacts wider society

"PEOPLE'S GREEN PULSE" ENVIRONMENTAL POLICY

Set up in 2016, the "People's Green Pulse" is the Bank's Environmental Sustainability programme. Since inception, its objectives have been to measure and minimize environmental impacts arising from bank operations, to educate and create awareness on sustainability among internal and external communities, and to take leadership in promoting environmentally friendly banking initiatives in the country. The above policy measures help us to identify the extent of our carbon footprint and rectify it in a timely manner, thereby promoting a greener future. It also aids the Bank to keep abreast of all regulations, making us forerunners in banking industry related green initiatives. We are proud to state that the "People's Green Pulse" unites us across branch networks, with sustainability teams across all key operational functions coming together to manage our environmental and social initiatives.

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Buildings	Processes	Customers	Employees	Society
Adopt a "Green Building Policy" across the Bank: • Certifying selected branches as carbon neutral buildings • -Introducing solar power generating systems to 30 buildings • Constructing new buildings according to LEED/GREENSL/ CIOB guidelines • All building contractors to follow LEED/ GREEN SL/ CIOB Green Mark Certification	Introduce paperless operations: • Cash and Cheque Deposit Machines • Kiosk for utility bill payments • Widest ATM network in the country • Paperless accounts opening and E-statements for accounts • Loan processing in paperless Environment • Internet, Mobile, and Web based banking systems • Debit and credit cards • 24/7 People's Call Centre	Promote green banking concepts related to savings: • Opening of accounts through Express Banking which is a paperless operation • Issuing E-statements to all account holders on request • Aggressively promoting SMS and Internet Banking • Issuing of debit cards towards a cashless society • Rolling-out Express Banking for new customers • CDM-cash depositing, ATM-Cash Withdrawals Kiosk-Bill Payments Promote green banking concepts related to loans: • Introduce Green Loan system with interest rate advantages for loans to purchase Electric Cars, Hybrid Cars, Solar Power Systems, and Compost Fertilizer production projects etc. • Promote green banking concepts related to people: • Encourage the community to switch to more environmentally friendly power supply sources • Contribute to protecting environment by encouraging environment friendly practices/ processes	Convince the workforce of the benefits of Environmental sustainability: • Encouraging staff to apply for loan facilities with concessionary interest rates to purchase Solar Power systems, environmentally friendly building construction methods, and Electric/Hybrid cars • Encouraging employees to practice electronic communication and documentation • Proposing a Bank Policy under the employee vehicle loan scheme that all future purchase of vehicles would be Hybrid or Electric vehicles	Achieve status as the most carbon conscious Bank/green Bank in Sri Lanka: • Exercising minimum carbon emission from its operations • Practicing carbon management, including investing in carbon trading programmes • Promoting and practicing environmental sustainability to educate society • Carrying out tree planting projects to maximise the availability of carbon credits

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CONSTRUCTING GREEN BRANCHES:

People's Bank is a Platinum Life Member of the Green Building Council of Sri Lanka (GBCSL). As such, we practice green concepts in all our construction and renovation projects to ensure sustainability. All our building projects are carried out with the GreenSL® Rating System of GBCSL and certified accordingly, with all our branches obtaining the Sri Lanka Accreditation Board (SLAB) Accreditation - ISO 14065 and GHG 002-01. We are pleased to note that this ensures the highest levels of efficiency in energy and water management, and indoor air quality. It is our endeavour to increase the number of green branches at People's Bank.

GRI 305-1, 305-2, 305-3

REDUCING OUR CARBON FOOTPRINT:

We are proud to note that we were the first State-owned Bank in Asia to be awarded the CarbonConscious® certification by the Sustainable Future Group (SFG) in 2019. That year also saw us receive the certificate for "Carbon Conscious Bank- 2019" presented by the Carbon Consultancy Company (CCC). As part of this certification process, we have adopted measures via which to reduce our overall GHG impact. As such, we are focused on reducing emission through increasing energy efficiency, investing in renewable energy, investing in reforestation, and purchasing carbon credits.

These measures have enabled the Bank to further reduce its GHG impacts in 2021, and the following table outlines the carbon footprint of our Head Office for the year.

Emission source	Emissions (tonnes)			Total emissions CO2e	%
	CO2	CH4	N2O		
Category 1: Direct GHG Emissions and Removals					
Direct Emissions from Stationary Combustion	21.4	0.0	0.1	21.5	1.3
Direct Emissions from Mobile Combustion	293.7	0.3	3.3	297.2	18.2
Direct Fugitive Emissions Arising from the release of GHGs in Anthropogenic Systems	–	–	–	72.4	4.4
Subtotal Category 1: Direct GHG Emissions and Removals	315.1	0.3	3.4	391.1	24.0
Category 2: Indirect GHG Emissions from Imported Energy					
Purchased Electricity	-	–	–	741.8	45.5
Electricity T and D Losses	–	–	–	74.1	4.6
Subtotal Category 2: Indirect GHG Emissions from Imported Energy	–	–	–	815.9	50.1
Category 3: Indirect GHG Emissions from Transportation					
Upstream Transportation and Distribution for Goods	7.4	–	0.1	7.6	0.5
Downstream Transportation and Distribution for Goods	0.2	–	–	0.2	0.0
Municipal Water Supply	–	–	–	3.4	0.2
Employee Commuting	84.5	0.2	0.7	411.1	25.2
Business Travel	–	–	–	–	–
Subtotal Category 3: Indirect GHG Emissions from Transportation	92.0	0.2	0.8	422.1	25.9
Category 4: Indirect GHG Emissions from Products Used by Organisation					
Disposal of solid and Liquid Waste	–	–	–	0.2	0.0
Subtotal Category 4: Indirect GHG Emissions from Products Used by organisation	–	–	–	0.2	0.0
Total	**407.1**	**0.5**	**4.1**	**1,629.4**	**100.0**

PAPER RECYCLING

A direct result of our investment in digitalisation to promote paperless banking was the reduction in paper consumption across the Bank network. Our customers are successfully making use of our island wide SBUs, mobile, and internet banking channels whilst our digitally enabled branches have further helped customers transition towards green banking practices. This commitment to sustainability is also present in small scale matters within the Bank as well, as the off-cut paper leftover at the Bank Printing Units are recycled to make memo pads and booklets for use at the Bank Training Centre. Confidential documents are shredded and given to external recycling centres. All these efforts-both big and small-have led to the huge achievement of the Bank recycling approximately 6,663kg of paper in 2021.

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IMPACT FOR 2021

- **Approximately 6,663kg of waste paper collected**

Indirect savings:

- **1,007 water litres**
- **152,000 kWh of electricity**

WASTE MANAGEMENT

The Bank follows the 5-S system for its waste management. The 5-S system is a lean manufacturing tool that improves workplace efficiency and eliminates waste using five steps that each begin with the letter 'S.'

1. Sort

2. Set in Order

3. Shine

4. Standardise

5. Sustain

Through following these systematic steps, we are able to optimise resource use whilst reducing instances of needless and irresponsible waste disposal, thereby protecting biodiversity and human health. The waste generated at the Bank is sorted into the relevant categories, at which point we determine which items can be recycled and which items need to be disposed. We then look into standardising these practices and sustaining them for the long term. The respective municipal/urban councils and Central Environmental Authority endorsed third party recycling service providers support us in general waste management, whilst out wastewater is discharged as per the guidelines of the National Water Supply and Drainage Board. In addition, e-waste recycling service providers are selected through a transparent tender process. In 2021, we continued the practice of repairing and reusing computer hardware, thereby significantly minimising our e-waste.

WATER CONSERVATION

The Bank is acutely aware of water shortages around the world and therefore makes every effort to conserve water usage within the Bank network. On a wider scale, we have installed a wastewater treatment plant to recycle wastewater for gardening and flushing purposes. This has been followed by smaller, yet equally important measures such as the installation of dual flush cisterns, auto flush toilet systems, and automatic faucets in Bank washrooms- features which we hope to extend across the entire Bank network over time. This year, the Support Services Department designed a sticker sign system to remind employees to be conscious of their water usage. These measures are continuously monitored by the Maintenance and Engineering Department who manage water leaks and other related issues in the network.

GRI 302-1, 302-2, 302-3, 302-4

ENERGY CONSERVATION AND EFFICIENCY IMPROVEMENTS

While Banking is not considered an energy intensive industry, we at People's Bank strive to minimise our energy inefficiencies wherever possible, thereby adhering to our sustainability principles. Our main sources of energy consumption are electricity and transportation, the latter being incurred through our travel fleet and business-related travel. While travel restrictions and "work-from-home" setups have reduced consumption in both areas, we have continued to invest in energy efficiency electrical systems and vehicles. A prominent part of this investment is focused on installing solar PV systems in Bank branches so that we rely on renewable energy. We are pleased to note that 2021 has seen this project extend to 20 branches in the country. Given below is a list of practices we follow that are aimed at reducing overall energy consumption in the Bank:

- Optimising energy consumption by giving due consideration to the "Energy Efficiency Ratio" of purchased machinery and electronics
- Replacing all lighting fixtures with energy efficient LED lights
- Procuring IT equipment with star rating for energy efficiency
- Fixing energy efficient air conditioners with inverter technology and carrying out preventive maintenance through on-time servicing and repairs
- Using environmentally friendly refrigerators
- Installing fuel efficient, low particulate emission, and sound proof generators with remote monitoring facility

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Energy Source	Energy Type	Consumption Level (GJ)*	
		2021	2020
Renewable	Electricity	5,689.44	6,236.6
Non-renewable	Fuel	3,933.52	5,979.2
Total		9,622.96	12,215.8
Energy intensity (per employee)		7.64	9.52

**Head Office departments only*

FUEL AND EMISSIONS MANAGEMENT

Consumption of fuel and emissions created through our transport fleet and business related travel are categorised under energy consumption. We have come up with several measures to mitigate and manage this. As such, we engage in effective route planning, invest in green vehicles, and organise bulk transportation of materials to reduce fuel usage.

PROMOTING RESPONSIBLE FINANCE AND GREEN FINANCE

We at People's Bank believe that the first step towards responsible finance is educating our employees. Hence, they are instructed on environmental accountability, environmental due diligence in the lending process, and the indirect negative impacts that can result from lack of screening when providing financial solutions. In addition to this, all relevant environmental regulations, the CEA license of our clients, and the Bank's business operations impact on the environment are assessed prior to approval. These stringent measures ensure that we are responsibly financing clients who will stand by green policies.

We also promote green financing through providing special loan schemes to environmentally friendly projects such as the purchase of solar power systems and the purchase of hybrid and electric cars. In 2021, we launched the "*Sarabhoomi* Loan Scheme" to support local fertiliser production and procure the relevant technology so that we can support the Government in its endeavour to create a poison-free country.

As always, our aggressive promotion of paperless banking is yet another overarching effort towards green banking.

PEOPLE'S ECO PARK PROJECT

The eco-park development project in Welimada in 2019 under our Environmental Sustainability Project has continued to thrive and contributed towards reducing our carbon footprint. The 300 trees that were planted are being nurtured by a team of agricultural specialist who remain dedicated to their work. The park is carefully maintained throughout the year and is fostered through regular fertilisers, manure, pesticides, and weedicides. An additional cost of labour for maintenance has brought overall costs to LKR 700,000 for the year 2021. However, the Bank sees the investment as being worthy of the cost and hopes to establish such parks in other parts of the island as well.

GRI 307-1

COMPLIANCE

People's Bank has maintained its clean track record when it comes to environmental compliance. As we abided by all environmental laws and regulations throughout 2021, we were not subject to any fines or imposed any non-monetary sanctions for the year.

FUTURE OUTLOOK

It is evident throughout this discussion that People's Bank is a united force when it comes to managing our natural capital. We wish to continue that trend by increasing the effectiveness of our departments, enhancing the skills and knowledge of our staff, and above all, positively impacting employee attitude towards sustainable environmental practices. Our "People's Green Pulse" will continue to take centre stage in formulating environmental policy and initiatives to combat climate change, whilst our green banking concept and digital banking drive will continue to promote sustainable, environmentally friendly banking practices.

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PERFORMANCE REVIEW

Our objective is to provide innovative banking solutions to all our customers and thereby remain true to our ethos of being the "the Pride of the Nation."

RETAIL BANKING

"Our objective is to retain our position as the market leader in personal loan products and solutions and to play our role uplifting the lives and livelihoods of all Sri Lankans"

The Retail Banking Division provides a range of products and services close to 14.5 million people across Sri Lanka. It constantly seeks to understand the aspirations of its diverse customer base and cater to their differing and changing expectations. With this objective in mind, we offer a variety of services which include deposits, pawning, personal loans and credit cards. Our success in meeting their needs was recognised at the Asian Banker Excellence in Retail Financial Services International Awards where the Bank was bestowed the honor as "The Best Retail Bank in Sri Lanka 2021". By way of background, the said Asian Banker Award is one of the world's most rigorous, prestigious and transparent programmes for consumer banking which self attests to the strides made by the Bank during the year under review.

OUR OPERATIONS DURING 2021

The continuation of the COVID-19 pandemic had a wide spread impact on both the global and local economy leading to considerable loss of jobs and income. Like all else, it was a source of severe distress and hardship for the Bank's customers and caused massive disruption to the day to day lives and livelihood of many.

In order to maintain our relationship with our customers during a year of unprecedented challenge, the Bank analyzed the main requirement of our customers and took prompt and decisive action to deliver solutions whenever and wherever possible.

Despite the several lockdowns, we consciously took steps to reach out to our customers in order to create constant banking access and be of service. We brought in mobile vehicles for cash withdrawal and increased the use of Mobile ATMs. This was further enhanced with Palmtop Banking, which allowed customers to withdraw and deposit money without the use of an ATM card. Even during the height of the pandemic lockdown, the Bank's Mobile Services covered over 1,000 rural townships, connecting with people even in the most remote of locations.

To make life easier, we concentrated on developing and popularising the use of our digital platforms, taking technology to the masses. Products such as Peoples Wave, Peoples WEB, People's Pay are now widely used and most of our customers are now familiar with digital products and online services. In line with the Central Bank of Sri Lanka (CBSL) requirements, we also introduced the Quick Response (QR) Code standard to boost financial inclusion by facilitating fast, secure and low-cost digital payment solutions to merchants. Extending these facilities to the rural areas of the country, the Bank successfully transformed rural Sri Lanka into a digital society within a very short span of time. In this connection, it is with pride we point out that our Mobile Banking App is now the most downloaded banking app in the country.

In addition, we did our utmost to address and alleviate the problems of our customers to the maximum extent reasonably possible. To help individuals and businesses in immediate difficulties, we extended moratoriums, concessionary loans and other reliefs. For those who had to work or study from home, we aimed to ease the difficulties by extending our laptop loan scheme at highly concessionary rates of interest. By doing this we were able to reach out and help those in academic, professional, vocational, technical and educational areas.

Through our dynamic customer segmentation process, we tailored strategies and products to appeal to the different segments and sub-segments based on demographic and socio-economic criteria. As a first step, we continued our strategy of directing our personal loans towards professional groups. To attract young professionals and salary earners, we introduced a new housing loan, the People's Home Loan scheme. The special attraction of this loan was that it offered a grace period of up to five years before the loan repayment period began.

The Bank further consolidated its relationship with national and professional bodies. In 2021, we renewed our MOU with the Government Medical Officers' Association (GMOA) for the second consecutive year and developed strategic partnerships with several

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Universities, the Pensions Department and the University Grants Commission. The University internship programme was a part of this strategy and was designed to bring young professionals to the Bank before they even began their working life.

After looking closely at our account portfolio, we upgraded some of our existing accounts and introduced new types of savings accounts. The country's flagship women's savings product *"Vanitha Vasana"* was introduced by the Bank in 1993 with a view to encourage the savings habit amongst women. During 2021, we added a range of additional services to upgrade this product and further enhance its offering. We launched the Branded Debit card and Money Planner investment plan. These products enabled *"Vanitha Vasana"* customers to increase their savings through a single deposit or a series of monthly deposits. For Sri Lankans working abroad we developed the "*Ethera Vasana* Rupee Savings Account." This novel savings account was designed for those looking to save in local currency in Sri Lanka and allowed them to receive high interest and obtain loan facilities in local currency.

By constantly adapting and innovating, the Retail Banking Unit continues to make a significant contribution to the Bank. This is best described by the following:

Product (Local currency)	Total Bank 31 December 2021 LKR Bn.	Retail Banking 31 December 2021 LKR Bn.	Retail Banking Contribution %
Total savings	739.8	727.7	98.4
Total demand	80.6	75.7	94.0
Total time	1,031.6	948.5	91.9

PERFORMANCE HIGHLIGHTS

Despite the adverse economic climate, the various sub-units of the Unit performed extremely well. Areas such as pawning, low cost deposits and personal loans all show substantial success across the board with the following figures self-attesting.

PAWNING

People's Bank pioneered the pawning business in Sri Lanka which is now a well-established part of our loan portfolio. At end 2020, the Bank's total pawning portfolio amounted to LKR 175 Bn. whilst during 2021 it was able to expand this by 11% to LKR 195 Bn.

	2021	2020	2019	2018	2017
Pawning advances (LKR Bn.)	195	175	163	150	136
Growth (%)	11	7	9	10	19

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LOW COST DEPOSITS (LOCAL CURRENCY)

The Bank has a comprehensive range of deposit products which were designed to encompass the customer's entire life cycle. At 31 December 2020, the total retail deposit base amounted to LKR 698 Bn. which is the 2nd largest across the entire banking industry in the country. Despite the enormous difficulties the industry was faced with during 2020, People's Bank's Retail Banking Unit was able to successfully expanded its retail deposits to LKR 803 Bn. representing a growth of 15%.

	2021	2020	2019	2018	2017
Low cost deposits (LKR Bn.)	803	698	528	503	486
Growth (%)	15	32	5	3	8

PERSONAL LOANS

During 2021, to overcome the challenges following the COVID-19 pandemic, the Bank launched a wide variety of personal loan schemes aimed at diverse professional groups and other fixed income earners. During the year under review, these strategies bore positive end results increasing the personal loan portfolio to LKR 463 Bn. representing a growth of 18%.

	2021	2020	2019	2018	2017
Personal loans (LKR Bn.)	463	392	256	358	326
Growth (%)	18	53	-28	10	14

FUTURE FOCUS

Our objective is to retain our position as the market leader in personal loan products and solutions and to play our role uplifting the lives and livelihoods of all Sri Lankans.

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ENTERPRISE BANKING

"We expect to grow our SME and micro-finance business by well over 20.0% during 2022 with a focus on niche and specialised sectors such Manufacturing, Agriculture, Ayurveda, Wellness and Export. We look forward to the future geared to play our role to assist the grass roots of our economy in anyway and every way reasonably possible"

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The Enterprise Banking Unit plays an integral role in uplifting the micro and small and medium enterprises (MSMEs) that form the backbone of the Sri Lankan economy. The Bank adopts a multi-faceted model to meet the diverse needs of its diverse customer segment, encompassing those of varying nature, size, sector and scope.

The Unit involves several departments, each with their own business disciplines; namely Commercial Credit, SME Development, Micro Finance, Commercial Banking and, the more recently set up, Credit Revival and Project Financing Units. This enables the Unit to tailor banking solutions to meet the specific requirements of each customer by employing both conventional and unconventional lending products. Our conventional offerings include staple corporate banking facilities such as term loans, trade and working capital facilities, and cash margin loans whilst our non-conventional products follow a developmental banking concept where we work closely with the Government of Sri Lanka, the Central Bank of Sri Lanka and global aid agencies including multilateral development banks so to allow access concessionary funding for the benefit of our customers.

OUR OPERATIONS DURING 2021

The COVID-19 pandemic has had a wide-ranging impact on how we approach our business. Our focus is now on the wider economy and areas, sectors, sub-sectors and businesses with the potential to add long term economic value added.

The support of the Asian Infrastructure Investment Bank (AIIB) in this connection has been noteworthy. The credit line provided at a concessionary rate of interest has enabled us to offer our customers hardest hit by the pandemic easy access to low-cost funding for working capital and other purposes. Whilst close to 60% of such funds was allocated towards the SME sector, the balance was allocated to the corporate banking customers. By end 2021, the total allocation of USD 90 Mn. was fully utilised.

One of our main challenges has been to manage and monitor delinquencies of our customer portfolio. The Central Bank of Sri Lanka moratorium schemes introduced has proved beneficial and timely for this purpose. By giving the customers an opportunity to defer interest and capital for a reasonable period, it has provided an imperative breathing space.

The department's greatest contribution has been in the agriculture space. On the other hand, areas such as the development and micro finance have proved more problematic as they involve seasonal businesses and entail seasonal payments.

Amongst the many initiatives introduced during the pandemic, with a view of helping our customers, the Bank set up the Project Finance and Rehabilitation Unit in January 2021. This has enabled us to be more focused in our effort to help our customers navigate this time of unprecedented challenge.

NEW DEVELOPMENTS

To meet the demand for organic and bio-fertiliser, and to assist the government in their effort to promote the production of locally manufactured pesticides, weedicides and fertilisers, the Bank initiated the *Saarabhoomi* Loan Scheme for local manufacturers of organic fertiliser. Under the said scheme, loan facilities are provided at highly concessionary rates of interest.

In March 2021, in line with the government "Vistas of Prosperity and Splendour initiatives," a unique financial assistance scheme, "People's Spark" was introduced to unleash the hidden potential of the country's

youth. The objective was to promote entrepreneurship amongst the educated and vocationally equipped youth by providing them with requisite training, knowledge and, more importantly, financial assistance. With the goal to establish 100-150 start-up businesses in the first phase across Agriculture, Food & Beverage, Manufacturing, Innovation, Tourism and Essential services. The first leg of the programme encompassed a six-day work shop; where the youth were instructed in various fields of entrepreneurship by local experts and university lecturers. They were then given the opportunity to train for a further three months under a successful entrepreneur in their respective field. After the training was over, they had to prepare their own business proposal. Based on this, the Bank provided a collateral-free loan up to LKR 2.5 Mn. which is repayable over a period of seven-years.

To drive the expansion of small and medium businesses in Sri Lanka, the Bank organised the 'Entrepreneurial Glory' programme. This focused on providing important information for over 200 small and medium-scale entrepreneurs looking to develop their own business or expand their existing ventures. The objective was to help entrepreneurs succeed in their respective businesses by enhancing their knowledge and expertise in a number of ways such as business planning, marketing, accounting, financial and time management - whilst also educating them on related aspects like taxes and general banking procedures.

With the intention of developing the portfolio and the respective segment and to assist its clientele unit has liaesed with several Government and non-Government agencies such as IDB, EDB, SLIM Sri Lanka, CA Sri Lanka, Smallholder Agribusiness Partnership Programme (SAPP), SMED and also with funding agencies like ADB, AIIB, AFD etc.

Development Banking Department of Central Bank and Development Finance Department of Ministry of Finance also provides their support to this endeavour.

PERFORMANCE HIGHLIGHTS

	Loans granted	
	Number of loans	Amounts LKR Mn.
Loan schemes with refinance	87,576	26,849
Loan schemes interest subsidiary	118,685	11,817
Loan schemes under People's Bank own funds	160,078	72,239
SME loans	9,414	38,302
Commercial credit loans	3,518	23,534

FUTURE FOCUS

The Unit constantly strives to be in complete harmony with the Government's objectives relating to SMEs and micro-SMEs. Several initiatives have already been undertaken by the Government to develop local industries in areas such as indigenous medicines, batik and spice exports. All these areas have been allotted grants and credit facilities and the Bank has established 17 credit lines for this purpose to meet their requirements. In order to assess, grant and monitor better - the Bank has established Regional Credit Units which are now an integral part of its strategy. As a member of the Asia-Pacific Rural and Agricultural Credit Association (APRACA), we will continue to develop the expertise and the skills of our local and regional credit officers.

The Bank has already added a number of new customers and conducted a number of training programmes for existing and potential customers. We expect to grow our SME and micro-finance business by well over 20.0% during 2022 with a focus on niche and specialised sectors such Manufacturing, Agriculture, Ayurveda, Wellness and Export. We look forward to the future geared to play our role to assist the grass roots of our economy in anyway and every way reasonably possible.

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CORPORATE BANKING

"Although many hurdles to yet overcome, we look forward to the future with optimism; focused on our role of helping in the creation of a strong and diverse local entrepreneurial base who could potentially add long term economic value to the country's economy"

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The Corporate Banking division plays a pivotal role in supporting Sri Lanka's socio-economic and infrastructure development. It caters to a diverse client base, covering both local and international, and consisting on and off-shore companies, Board of Investment (BOI) Approved Entities and State-Owned Enterprises (SOEs). The Division engages in a diverse array of activities which include corporate financing, syndications, acquisition financing, credit financing, lending, export and import financing, and its products and services include loans, working capital, trade finance, project financing and cash management.

The division's entire lending portfolio is close to LKR 690 Bn. It also has a growing private sector credit book.

OUR OPERATIONS DURING 2021

Due to the pandemic, like all other, the Corporate Banking division was particularly exposed to many challenges. Whilst the impact on tourism and related businesses was exacerbated, and continuing from the Easter Sunday attacks, the Impact to all other sectors such as constructions, retail and trading was universal. The pandemic spared a very few and it was the ultimate test of the fittest. Notwithstanding, we at People's Bank's continued to assist our customers in their time of need, extending moratoriums and other relief where necessary and at every instance possible whilst continuing to extend funding and other support to State Enterprises. During 2021, People's Bank - together with HSBC - imported the first batch of 500,000 Oxford/ AstraZeneca vaccines. Our success has been in our ability to adopt and adjust. During 2020 and 2021, we have introduced a number of innovative, pragmatic and situational strategies; which has helped us weather the storm and importantly assist our customers as they journey through this time of challenge and change.

The dollar liquidity concerns which surfaced starting from the middle of the year was an issue faced by many of our customers; who are mostly import dependent and who engaged in - amongst other - trading, construction, power & energy and manufacturing. We remained conscious of our wider national role under these circumstances; diligently providing USD funding to priority areas with an emphasis on essential services. The crises also witnessed the on-boarding of several new customers; post having realized our loyalty and steadfastness in times of real need.

With a view of assisting the country's exports, we increased our focus on exporters and found success in on-boarding several blue-chip corporates and middle-tier customers; who opened collection and operating accounts with the Bank. This, to a notable extent, also helped from a dollar funding and deposit mobilisation perspective.

During this time, we also worked tireless and very closely with our customers to aid them in their diversification strategies and encourage them to explore new horizons for the long-term betterment of their businesses.

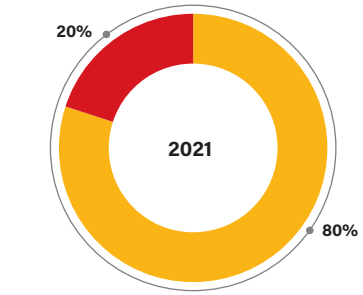
In a time where business volumes were low and growth was minimal, we realised that ongoing dialog with our customers, and keeping constantly abreast of developments, was critical. The pandemic saw our lines of communication open 24/7 and our interaction improve notably aided by virtual engagements.

PERFORMANCE HIGHLIGHTS

We concentrated on enhancing our non-funded income sources, as primarily derived from our trade finance business and our digital solutions.

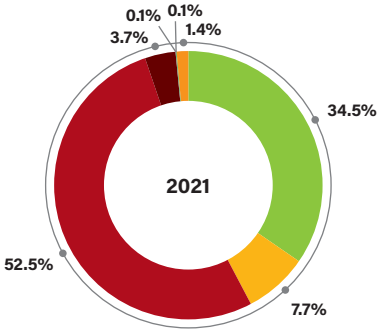
	2021	2020	2019	2018	2017
Net Income (LKR Mn.)	13,223	13,565	12,465	12,339	9,022
Net profit before tax (LKR Mn.)	5,399	6,142	8,330	8,908	7,725
Advances (LKR Mn.)	690,170	696,171	606,422	564,799	354,524
Deposits (LKR Mn.)	154,862	158,251	109,845	156,831	162,130

SECTOR EXPOSURE



- Government and SOE
- Private sector

CORPORATE BANKING PORTFOLIO



- Import loans
- Term loans
- Import bills
- Others
- Export loans
- Overdraft
- Export bills

FUTURE FOCUS

Our focus going forward is to increase our customer acquisition through our industry benchmark digital products and solutions. By doing so, we aim to reduce the customer transaction lead times benefitting both the customer and the Bank.

Looking ahead, we see substantial growth in local manufacture and import substitution industries as well technology and information technology and health care spaces. Whilst there may be many challenges ahead in both the short to medium term, it is our view that there is an inherent opportunity which presents itself during a crises which, if seized and explored well, could help the country over the longer term. We remained geared to support such industries as they seek to explore such avenues for growth. Our priority is country first. Although many hurdles to yet overcome, we look forward to the future with optimism; focused on our role of helping in the creation of a strong and diverse local entrepreneurial base who could potentially add long term economic value to the country's economy.

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TREASURY

"Sound relationships with our customers and counterparties have been the cornerstone of our successes. We are constantly thinking, adapting and building new relationships"

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The Treasury Unit is a critical hub of the Bank. It is a highly specialised area which acts as a conduit between the Bank and its over 900 international banks and financial institutions, globally. It plays a central role in managing the Bank's funding and liquidity requirements and optimising the usage of funds. The Unit also manages the market risk of the Bank's investment portfolio, entire foreign exchange and other cash instruments and is the source of Institution's foreign exchange income, trading income and realised gains.

The Investment Banking business is also an integral part of the Bank's Treasury operations. The Investment Banking Unit (IBU) manages the trading portfolio and the equity portfolio of the Bank and handles the structuring of debentures and corporate debt instruments. Its main function is to contribute towards the Bank's fee income.

KEY LINES OF BUSINESS

- **Foreign Exchange Desk:** Manages the foreign currency liquidity and exposure of the Bank. It handles foreign exchange (FX) corporate transactions, FX interbank transactions, management of FX liquidity, FX Money Market transactions, quotes rates for foreign currency fixed deposits, transactions in USD denominated Sri Lanka Development Bonds of GOSL and International Sovereign Bonds.
- **Money Market Desk:** Handles the rupee liquidity of the Bank. It manages the Bank's Statutory Reserve Ratio (SRR), LKR liquidity, Repurchase and Reverse Repurchase transactions and quotes rates for local currency fixed deposits.
- **Primary Dealer Unit:** Trades and invests in Government Securities to earn capital gains and interest income while managing the Sri Lankan Rupee denominated government securities portfolio. Profit-wise, the unit is one of the leading primary dealers in the country and has been the undisputed leader in the primary dealer industry for many years.
- **Investment Banking Unit:** Manages the Bank's corporate debt and equity portfolio including the corporate debt investments. IBU offers a full range of services including financing and advisory services, initial public offerings, debt structuring, fixed income security trading, loan syndications, trustee services, custodian and securitisations. Utilising its group synergies and drawing on the strength of the Bank, IBU has established its name in the capital market as one of the best and innovative solution providers for its clientele within a short time span.

OUR OPERATIONS DURING 2021

The economic stresses, triggered by the COVID-19 pandemic, intensified during 2021 - placing the Unit and the Bank as a whole under severe pressure and creating unprecedented challenges in the management of FX liquidity. The lack of FX liquidity in the interbank market, coupled with the drop in exports and the decline in remittances, made it even more challenging to manage the mismatch between the Bank's FX inflows and outflows.

This stress was particularly acute since a substantial portion of bank's business is to support essential services in view of its broader national role towards the Government and other State-Owned Enterprises. The Bank handles a significant portion of the country's oil, coal, fertiliser and pharmaceutical imports. As a result, many of the FX requirements during both 2020 and 2021 were for essential imports and the Bank for which the

Bank played a key role to provide funding for the said purposes. Due to the sovereign credit rating downgrade of the country, many of the anticipated funding transactions were delayed or did not taken place; thereby resulting in a notably lower inflow of FX relative to that anticipated.

Despite these extraordinary challenges, with the support of the branch network, the Bank managed its positions with a great degree of success and has been proactively mobilising foreign currency deposits. Sound relationships with our customers and counterparties have been the cornerstone of our successes. We are constantly thinking, adapting and building new relationships . When access to the interbank market was curtailed and there was lack of liquidity in the market, we took initiatives to reach out to exporters and persuade them to convert their FX inflows with the Bank. As a result, the Bank was able to also expand its new client base.

Our relationships have also served to bolster our capability of obtaining international funding during these difficult times. Whilst there has been a significant reduction in the foreign funding available to the Bank due to the downgrading of the country's credit rating, relative to our peers both State Owned and Private - People's Bank continues to maintain the strongest relationships with foreign institutions such as the Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB) and China Development Bank (CDB) and many other leading foreign banks. The nature of these relationships meant that the Bank was able to obtain a larger proportion of their lending. We aim to leverage these relationships in order to obtain additional funding for the benefit of the Bank. Furthermore, due to the strong relationships that we have cultivated over the years with foreign lenders, we have been able to obtain funding at relatively favorable rates.

The Bank also maintained it supremacy in the industry in terms of trading profits. The Bank correctly forecasted the interest rate structure and as interest rates increased, took proactive measures to place emphasis on short term assets,

2021 has also been a banner year for the IBU. It has seen a significant increase in revenue and has generated an income which is 4-5 times higher than the income booked during previous years. In April 2021, our IBU structured the largest ever Listed Debenture Issue in Sri Lanka for LKR 20.0 Bn. for the benefit of the Ceylon Electricity Board (CEB). This was the first ever listed debenture by any state agency and it was oversubscribed on the opening day itself. Furthermore, IBU acted as the restructuring partner for the Road Development Authority (RDA) for the restructuring of loan facilities which amounted to over LKR 200 Bn.

PERFORMANCE HIGHLIGHTS

	2021	2020	2019	2018	2017
Net Income (LKR Mn.)	15,121	12,713	10,728	11,417	9,100
Net profit before tax (LKR Mn.)	15,023	12,699	10,472	11,109	8,896
Investment (LKR Mn.)	581,394	444,977	508,824	442,411	362,124

FUTURE FOCUS

The Treasury Unit plans to establish a Treasury sales team to work in collaboration with the Corporate Banking Division of the Bank.

One of the achievements that we are most proud of is that the Treasury has been able to function and provide uninterrupted services throughout the pandemic period, despite the restrictions imposed and notwithstanding the reduced tempo of activities due thereto. We have proved that we are able to adapt to these changing times even amidst limiting circumstances. The Treasury team is young, dynamic and eager to help drive the success of the Bank. Despite the current macro level stresses, the Treasury Unit is expected to continue to significantly contribute to the earnings and growth of the Bank.

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OVERSEAS CUSTOMER SERVICES

"During 2021, we succeeded in expanding our network by establishing relationships in new territories with new foreign exchange houses and other partner institutions. In addition, we deployed more representatives in foreign countries, established more correspondent arrangements and strengthened our relationships with existing agents"

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The Overseas Customer Services (OCS) provides specialised services for Sri Lankan expatriates around the world, serving those who travel for work, leisure or study. The Unit manages foreign currency accounts, engages in FX related transactions and facilitates remittances and currency repatriation. Through arrangements with other partners around the world, and supported by its branch network spread throughout the country, OCS plays a notable role to driving the inflow of foreign currency to the country.

OUR OPERATIONS DURING 2021

As a result of the pandemic, with large scale job losses amongst many Sri Lankans working overseas, the negative impact on remittances and foreign currency deposit mobilisation was inevitable, and like all else, the Bank was not immune to such consequences. The tourism sector, which has been a key source of foreign exchange to the country was thereby naturally affected, thus reducing the inflow of foreign currency through our platforms to the country and the Bank. The sweeping travel restrictions and lockdowns both locally and globally aggravated the situation. These restrictions in turn led to a sharp decline in the number of work visas issued by Middle Eastern Countries and East Asian countries such as South Korea and Japan. Compounding these various difficulties was the challenge relating to exchange rates. All these factors intensified the pressures on inward worker remittances and foreign currency inflows to the country. Overall, Sri Lanka received around USD 549 Mn. in inward worker remittances during 2021, which represented a reduction of close to 23.0% relative to 2020. As a result, all Banks found themselves in competition for the reduced number of remittances.

Despite these challenges, People's Bank has continuously worked towards enhancing its service and overall business. These efforts have, and continue to be aided by, various digital initiatives, innovative marketing strategies, attractive new product offerings, and the continuous development of its international network. Albeit yet to show significant results circumstances considered, these strategies are reasonably expected to pave the way for growth in time to come. Importantly, despite the decline in the overall volume of foreign remittances, the People's Bank has been able to increase its market share during the year under review; which is noteworthy.

To cope with the challenges during the year under review, we set out to increase inward remittances; mobilise foreign currency deposits; and increase fee base income and foreign exchange income towards which we employed several strategies.

During 2021, we succeeded in expanding our network by establishing relationships in new territories with new foreign exchange houses and other partner institutions. In addition, we deployed more representatives in foreign countries, established more correspondent arrangements and strengthened our relationships with existing agents. We were able to capture new markets in South Korea and Hong Kong, and expand our presence in countries such as Spain and Romania where we see potential for growth.

To mobilise remittances and foreign currency deposits, the Bank launched People's Forex, a special mobilisation campaign and which was backed by a competitive business strategy. This was put into motion from period 1 May to 31 December 2021. We also canvassed the Special Deposit

Accounts (SDA) which was introduced by the Central Bank during 2021. These efforts helped us mobilise foreign currency deposits.

A number of methods were employed to encourage workers and expatriates to send their money through People's Bank. We provided incentives, gifts and loans to those living and working abroad. We introduced a new loan scheme for expatriates and started a "Remittance Draw" for customers living and working in Japan.

The development of modern technology and innovative products has been a central part of our strategy. To facilitate customer engagement, several initiatives were implemented to ensure an easier and faster remittance of funds from abroad through improved digital apps and systems. Through our long standing relationship with Western Union, we introduced a new way of crediting funds, referred to as "Call and Deposit" as service extended by us for Western Union Customers. This enabled customers with People's Bank Accounts to remit funds through a phone call or a simple message via WhatsApp or Viber, eliminating the need to visit a branch.

To make the process of transmitting funds faster and more user friendly, we further enhanced the integration of our remittance systems with our global partners. This entailed the implementation of the latest product, People's Web-Remit system, which was designed to facilitate the smooth functioning of inward remittances to People's Bank online and in real time. We further implemented the "Anywhere" Payout Cash Payments service with a number of global partners such as Ria, Master Card Transactions Services and Worldwide Cash Express. This made it easy for our customers to receive funds sent from abroad almost anywhere in the country.

PERFORMANCE HIGHLIGHTS

	2021	2020	2019
Worker remittances (USD Mn.)	474	502	503
Total inward remittances (USD Mn.)	1,124	1,142	1,185
Outward remittances (USD Mn.)	174	149	224

Number of correspondence Banks

	2021	2020	2019	2018	2017
Vostro arrangements	20	20	20	20	19
Nostro arrangements	42	42	42	43	46

FUTURE FOCUS

The primary focus of the Unit is to make the People's Bank the "Bank of Choice" for all categories of Sri Lankan expatriate workers for their remittance purposes. In addition, with the gradual revival of tourism, we see opportunity for growth. By training our staff on a regular basis we constantly seek to enhance our service delivery in line with international standards. The Unit has, and continues to, establish relationships with exchange partners in overseas territories and, through this rapport and ongoing dialogue; seeks to progressively increase the remittance volumes for the benefit of the Bank and the country. All combined, we positively look forward to a future of growth!

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INTERNATIONAL BANKING

"The development of new avenues and ways of working has meant that our customers can reach us outside the usual banking hours so to ensure their operations remain unhindered and Banking operations seamless"

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International Banking Department (IBD) engages in international banking related activities with a particular emphasis on trade transactions and guarantees. The division, as part of the Corporate Banking Department of the Bank, engages in a wide range of activities and trade products, which includes off-shore transactions, loans and foreign currency accounts.

Off-shore transactions are facilitated by the Off-Shore Banking Unit, which offers a range of foreign currency loans, deposits and accounts. The Trade Finance Department, within the International Banking operation, provides services and solutions for exporters and importers who transact with overseas markets. All of these services are facilitated through our network of over 1,000 overseas correspondents across 110 countries.

Our primary objective is to assist our customers and counter-parties in the efficient settlement of international commercial transactions whilst ensuring safety and security for all involved.

OUR OPERATIONS DURING 2021

With the pandemic continuing to present its own challenges amongst all businesses alike, People's Bank responded in creative ways with a target to offset its adverse impact to the maximum extent reasonably possible. The following was undertaken during the year under review:

- The existing corporate internet banking system was enhanced to cover more products. A facility for online application of Short-Term Loans (STL) was introduced. This enabled the granting of trade loans to customers without the need to be physically be present at the Bank.
- Similarly, we accepted import documentation, electronically or by fax, to initiate the process.
- In addition, the international banking operation was made accessible throughout the day in a bid to overcome any potential impediments to customers' operations during a crucial time.
- Electronic requests by customers to the Real Time Gross Settlement (RTGS) system was enabled by the Bank, which facilitated instantaneous transfers of funds of corporate customers.

The lack of foreign currency liquidity in the country had a negative impact on our international banking operations. This inevitably lowered the volume of transactions and their associated values. To compensate for the decline in such trade volume, and in view of supporting the Government in their endeavors to enhance exports, we have shifted our focus to the export sector and have begun to aggressively focus on the export side of our business. As an operational department, service delivery is of paramount importance. The development of new avenues and ways of working has meant that our customers can reach us outside the usual banking hours so to ensure their operations remain unhindered and Banking operations seamless. Needs to be said that the commitment shown by all staff in the International Banking Unit has been exemplary which has resulted in improved efficiencies in the delivery of all related services.

Other out of the ordinary challenges

In addition to pandemic induced and other macro stresses, the Bank was faced with other challenges which were beyond its reasonable control. In October 2021, by way of a court enjoining order, People's Bank was

prevented from honouring a USD 6.9 Mn. payment towards a fertiliser shipment due to quality concerns of the importer. The matter was subsequently amicably resolved between the exporter and the importer, and the court order being dissolved. The Bank honoured the said payment no sooner. Whilst there was negative reputational consequences arising therefrom in the interim, particularly in the early days, the Bank was able to successfully manage such implications through a process of open and transparent dialogue with all its stakeholders; creating awareness of underlying circumstances and its duties as a highly responsible State Organisation.

GREATER DIGITISATION

The digitisation of many of our processes and procedures during this period has been a catalyst for our improved efficiency. The improvements brought about are now embedded into our normal course of day to day business. We expect to further integrate technology and digitalisation into our operations with the aim of fostering improved efficiencies on a consistent and continuous basis to the benefit of both the customer and the Bank.

REDUCTION OF COSTS

As a responsible State Institution, the Bank is constantly in pursuit of cost efficiencies and productivity enhancements. It is currently in the process of re-thinking its key processes in order to further improve customer service delivery times. Needless to say, this is an ongoing process.

EXPORT AND EXPORT DIVERSIFICATION

As the global economic situation returns to some normalcy, and businesses and countries regain their pre pandemic activity levels over the short to medium term, it is the reasonable expectation that the increased focus of the Bank on its export business operations will pay dividends. We expect to position the Bank as a major participant in international export trade in addition to its already strong position in import financing.

SERVICE DELIVERY

Service delivery is a key part of the department's performance metrics. As evidenced through the many initiatives introduced, it has proven its ability to function efficiently and effectively, as clearly demonstrated during the pandemic.

FUTURE FOCUS

Our strategic direction is to concentrate on building our export focused business segment and thereby create greater diversification to our trade finance platform. Considering the strengths and capabilities of the Bank backed by its country wide branch network and the existing relationships of our Corporate Banking Department, clearly there is ample opportunity for further growth. Digitisation will be a permanent fixture in our day to day operations as we strive to continuously and consistently improving our productivity and service quality. We look forward to the future with optimism!

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RISK MANAGEMENT

All elements of our risk management framework function together to support prudent and measured risk-taking, striking an appropriate balance between risk and return.

RISK MANAGEMENT

GRI 102-15, 102-30

The dynamic changes in the world are reshaping the risk landscape. While financial and non-financial aspects of risk continue to shape risk management decision-making, the dramatic effects of COVID-19 test the operational resilience and agility of banks. It has become imperative for banks to re-evaluate their resilience across all aspects of risk, flex between physical and virtual footprints, and be adaptive to the changing dynamics. In a more digital world where there is increased reliance on technology-driven intelligence, cyber security and the protection of customer data has become more important than ever, as the Bank's reputation depends on it. Being attuned to dynamic, predictive models to better understand customers and the associated risks will enable to drive opportunities to create competitive advantage and growth. Furthermore, in a potentially worsening economic environment, banks need to dynamically manage their credit portfolios and the risk functions need to be closely integrally connected with the entire operations of the Bank. It is also essential for banks to improve data availability and quality across the risk function to enable real-time sharing, discussion, and feedback.

The challenges posed by non-traditional new participants entering certain segments of the market, disrupting the traditional bank operating model with the use of advanced technologies, agile delivery methodologies, and analytical tools offering a highly customised user experience with lower fixed costs has the potential to impact revenues and costs in certain areas of the banking business as well.

As the leading bank in digitalisation with the largest customer base in Sri Lanka, our digital transformation and automation journey has proven to be highly effective in conducting our operations and providing an interrupted service through the pandemic. The Bank's sound Integrated Risk Management Framework (IRMF) helps to identify, assess, measure, mitigate, monitor, and report risks comprehensively. Our operational preparedness and sound early warning risk indicators of potential disruption- which enabled us to navigate the challenging year- showcase the resilience of our organisation. We continue to adopt highest standards for quality and integrity, which are essential to our brand and reputation and to make a lasting impact for our stakeholders. All risk types are managed and reported in accordance with the Bank's Integrated Risk Management Framework. All elements of our risk management framework function support prudent and measured risk-taking, while striking an appropriate balance between risk and return.

The objectives of the Bank's Integrated Risk Management Framework are:

- Assess and manage risk exposures of the Bank appropriately
- Develop an effective system to monitor the Bank's risk exposures, linked to the Bank's capital
- Establish a compliance mechanism to monitor compliance with internal policies, particularly with regard to risk management
- Establish an effective communication mechanism to communicate all relevant policies and procedures across the Bank
- Adopt and support strong internal controls
- Nurture a strong risk culture within the Bank

THE BANK'S RISK MANAGEMENT FRAMEWORK

The Bank has a robust risk management framework based on the Three Lines of Defence Model, to ensure a structured mechanism to manage all risk exposures of the Bank. This is an integrated and holistic system that manages risks effectively through three separate and clearly identified lines of defence.

THREE LINES OF DEFENCE

FIRST LINE OF DEFENCE

BUSINESS LINES/CORPORATE FUNCTION

Risk identification and ownership for the management of risk, ensuring risks are within the Bank's accepted risk appetite and risk management policies.

- Retail, corporate, and enterprise banking
- Treasury
- Branch operations
- Information technology

SECOND LINE OF DEFENCE

RISK MANAGEMENT AND CONTROLS

Provide direction for risk management and compliance, maintain an effective risk management policy framework and independent monitoring for effective implementation of risk management framework.

- Risk Management Department
- Compliance unit
- Finance
- Human resources

THIRD LINE OF DEFENCE

ASSURANCE

Providing independent and objective assurance on the risk exposure, processes and practices in place and ensure highest level of governance and compliance.

- Internal audit
- External audit
- Regulatory compliance

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RISK CATEGORIES

The main risk categories of the Bank are credit risk, market risk, operational risk, liquidity risk, funding risk, compliance risk, reputational risk, legal risk, and strategic risk.

RISK UNIVERSE OF PEOPLE'S BANK

The risk universe of People's Bank comprises all risk categories across all its business lines, functions, geographical locations, and legal entities.

MANAGED BY THE BANK

ACTIVITIES	LENDING	FUNDING	TRADE	OPERATE	COMPETE	REGULATED
RISKS	**Credit risk** ▪ Default risk ▪ Concentration risk	**Liquidity risk** ▪ Equity risk ▪ Interest rate risk	**Market Risk** ▪ Commodity risk ▪ Exchange rate risk	**Operational risk** ▪ People risk ▪ IT risk ▪ Compliance risk ▪ Business continuity	**Strategic risk** ▪ Reputational risk	**Compliance risk**

RISKS — **MONITORED BY THE BANK TO ASSESS IMPACT**

GEOPOLITICAL | MACROECONOMIC | REGULATORY

RISK APPETITE FRAMEWORK

GROUP RISK MANAGEMENT FRAMEWORK

Credit Risk Management Framework | Market Risk Management Framework | Operational Risk Management Framework | Liquidity Risk Management Framework | Compliance Risk Management Framework

STRESS AND SCENARIO TESTING FRAMEWORK

CAPITAL MANAGEMENT FRAMEWORK

Regulatory Capital — **Economic Capital**

Strategic Plan | ICAAP Under Basel III | Performance Management | Process Quality Management

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RISK APPETITE

Risk appetite expresses the aggregate level of risk that the Group is willing to undertake to achieve its strategic objectives. This is defined by a set of minimum quantitative metrics and qualitative statements. The risk appetite indicates the maximum level of risk the Group can assume before breaching regulatory constraints and its obligations to stakeholders. This provides a framework for the Bank to drive sustainable performance by evaluating optimal growth options alongside the risks involved. The risk appetite is reviewed and approved by the Board annually, to ensure alignment with the Group strategy, business environment, and stakeholder requirements.

The risk profile of People's Bank as at 31 December 2021 and 31 December 2020, compared to risk appetite, is given below:

	Credit risk appetite			Position as at	
	High risk	Medium risk	Low risk	31 December 2021	31 December 2020
NPL/Total advances (without pawning) %	>6	3-6	<3.0	3.47	3.54
Overdues %	>12	6-12	<6	5.11	4.70
Provision cover %	<60	60-70	>70	74.8	64.09
P and L charge %	>50	50-35	<35	49.38	42.45
Concentration (HHI Method)	>0.25	0.25-0.15	<0.15	0.16	0.22
Recoveries %	<10	10-20	>20	13.00	19.05
TOD excess %	>20	10-20	<10	18.45	12.36
Overseas exposure (OBU) %	>15	10-15	<10	1.29	1.46

	Operational risk appetite			Position as at	
	High risk	Medium risk	Low risk	31 December 2021	31 December 2020
Operational losses - Internal frauds	>6	3-6	<3	4	1
Operational losses - External (Pawning)	>300	150-300	<150	82	171
Total operational losses to total operational expenses	>1.0%	0.5%-1.0%	<0.5%	0.54%	2.23%
Systems availability					
High critical	<97.5%	97.5%-99.9%	>99.9%	99.91%	99.92%
Medium critical	<95%	95%-97.5%	>97.5%	99.53%	99.21%
Low critical	<87%	87%-90%	>90%	100%	99.99%
Percentage of branch audits rated less than average	>12%	7.5%-12%	<7.5%	9.61%	15%

RISK GOVERNANCE

The Bank's risk management framework is founded on a governance approach that includes a robust committee structure and a comprehensive set of corporate policies and limits, which are approved by the Board of Directors or its committees. It also includes specific corporate standards and operating procedures. The Board of Directors hold the apex responsibility for risk oversight and their priorities include determining risk appetite levels, formulating risk policies, and ensuring the effective management of risk exposures. The Board is aptly assisted by several sub-committees and executive committees in the discharge of duties related to risk management. This provides clear segregation of duties between risk origination and approval of risk exposures whilst ensuring Board level oversight. The Board and the risk committees operate under the directions of their respective charters.

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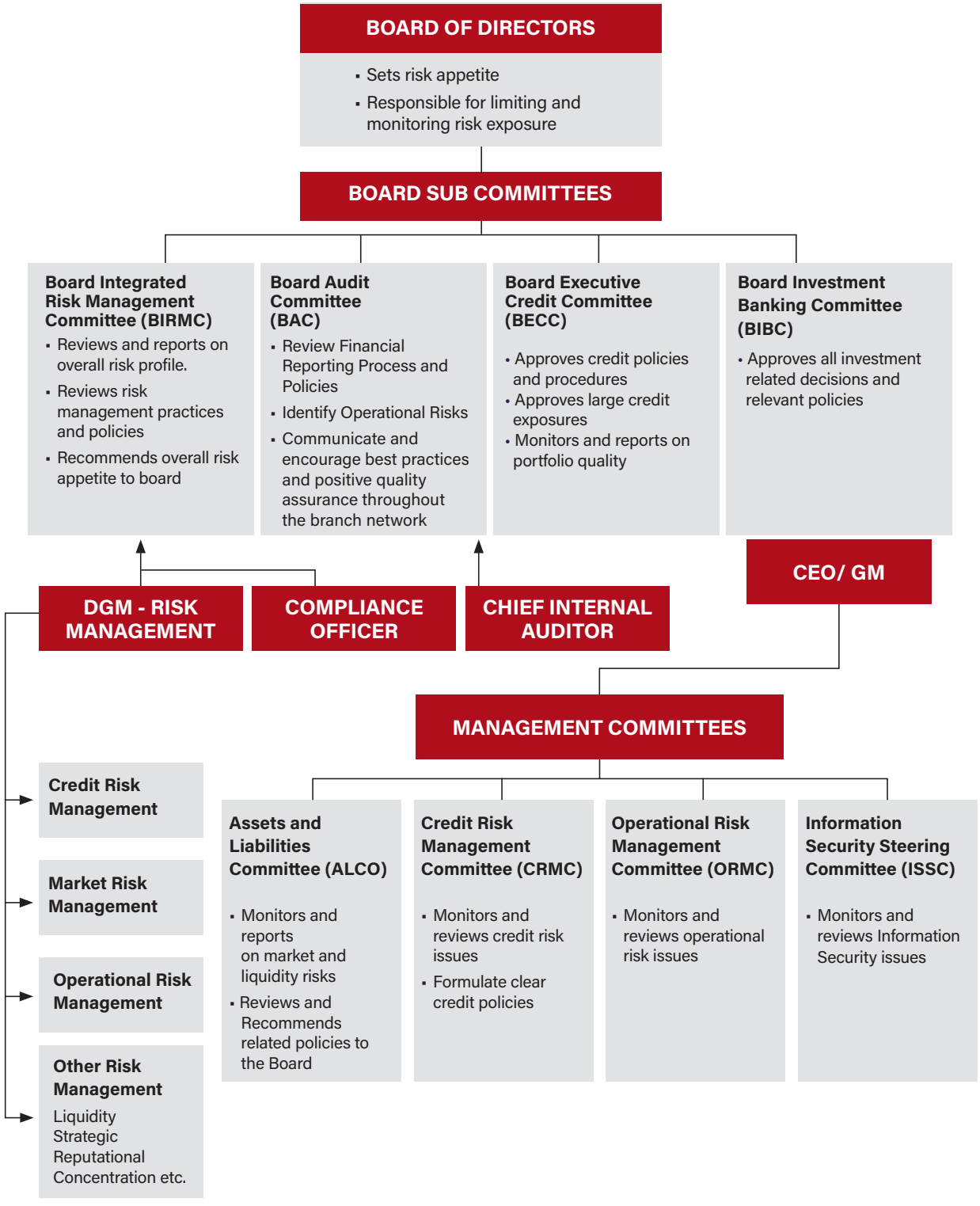
The risk governance framework of People's Bank is illustrated below:



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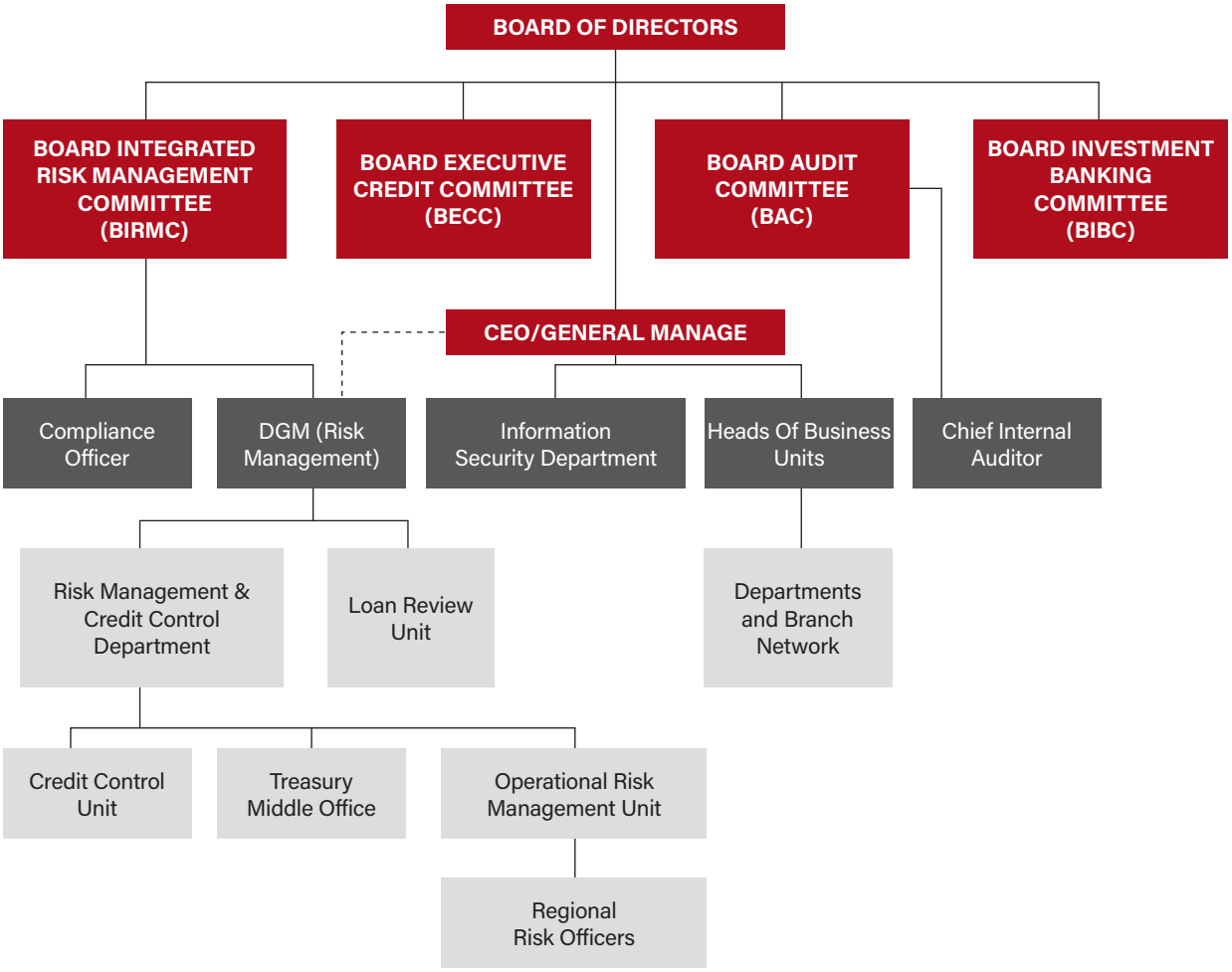
FUNCTIONAL STRUCTURE OF THE INTEGRATED RISK MANAGEMENT FRAMEWORK OF THE BANK



RISK CULTURE

We promote a strong risk culture throughout the Group, as we believe that risk management is the responsibility of every employee within the organisation. All employees are responsible to manage and escalate risk whilst exhibiting responsible behaviour that supports a strong risk culture. To strengthen the risk culture, we train our employees regularly to enhance their level of risk awareness and provide the necessary skills and experience to manage risks related their roles.

The principles that underpin the risk culture within our Group include:

- Defined risk appetites for risks taken by the Group
- Every risk to be approved within the risk management framework and adequately compensated
- Continuous monitoring and management of risks

STRESS TESTING

Stress testing is a key element of our risk and capital management frameworks. It is integrated into our enterprise and Group risk appetite statements and embedded in our management processes. To evaluate our risks, we regularly test a range of scenarios which vary in frequency, severity, and complexity in our portfolios, businesses, and across the enterprise.

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Stress testing is a vital element in our risk management framework. It is a simulation technique adopted to determine how the asset and liability portfolios react to different financial situations, which vary in frequency, severity, and complexity. This is conducted periodically, to ensure sufficient buffers of capital and liquidity are available to meet unexpected losses and contractual obligations.

Stress testing is an integral aspect of the Group's Internal Capital Adequacy Assessment Process (ICAAP). We assess the potential impact on the Group's risk profile and financial position including the potential impacts on earnings, capital, and liquidity due to macroeconomic and market variables. All material risk types are included in the stress testing exercise.

Regular reviews are conducted by the BIRMC on the Group's stress testing outcomes and the major assumptions that underpin them. The outcomes are vital inputs for capital planning for ICAAP, strategic planning, defining risk appetites, communicating with internal and external stakeholders, and managing risk within defined parameters.

Given below is the stress testing process of the Group.

STRESS TESTING

CREDIT RISK	MARKET RISK	LIQUIDITY RISK	OPERATIONAL RISK
• Deterioration in asset quality • Shifts in NPL Categories • Fall in value of collateral • Increase in NPLs from top 10 borrowers	• Movements in market interest rates • Movements in market exchange rates • Movements in market equity prices	• Effects of 'hot money'/retail fund withdrawals • Effects on SLAR and LCR	• Based on the last 3 years (last 36 months) average amount of losses recorded • Based on the preceding year's (last 12 months) amount of losses recorded

MINOR MODERATE AND HIGH STRESSED SCENARIOS

Impact on tier 1 capital, total capital and the capital adequacy ratio

NEW DEVELOPMENTS IN RISK MANAGEMENT AT PEOPLE'S BANK

The following improvements were instituted to enhance the risk management framework of the Bank in 2021.

- Implementation of Fraud Risk Policy to manage internal and external fraud proactively
- Successfully implemented Regional Risk Officers (RRO) concept will be further strengthened by allowing additional RROs for larger Regions and development of RROs.
- Implementation of reviewing NPA recovery proposals by the Risk Management Department to maintain highest standards of recovery action.

The Group's preparedness was strengthened to deal with emerging risks, which can surface without warning. The following measures were taken to deal with such emerging risks.

- Streamlining & digitisation of work process
  - Retail Loan Origination System
  - Corporate Loan Origination System
- Imposing credit limits based on Borrower Risk Rating
- Imposing limits on exposure of State Owned Enterprises (SOE)
- Strengthen of stress testing by covering more areas.
- Establishment of Information Security Unit headed by CISO
- Maintenance of ISO 27001:2013 Standard (Information Security Management System)
- Periodic review and access of bank risk appetite statement relevant to all risk dimension and wider use of same
- Further strengthening of digitalisation work process and customer on boarding
- Preparedness and coverage measures for Cyber and Physical risk

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The following security assessments were conducted as a preventive measure:

Security assessment	Number of assessments conducted in 2021
External vulnerability assessments	4
Internal vulnerability assessments	3
Web application security assessments	10 Web Applications
Host discovery assessments	1
Wireless security assessments	3 sites
Firewall security assessments	8 Firewalls

FOCUS FOR 2022

To mitigate the heightened IT risk due to increased use of digital channels for banking following the pandemic, we will expand our cybersecurity capabilities to defend against potential threats and minimise the impact to the business, including the activities to reinforce the Bank's resilience to events caused by factors out of the Bank's control.

The credit post review function will be strengthened by allocating competent staff to the Unit and by close overlook of the review process by the DGM-Risk Management. Additional regional risk officers will be appointed to the larger regions to ensure the effectiveness of the process. The credit evaluation skills of the credit officers will be sharpened through training and development throughout the year.

To further strengthen credit concentration of the Bank, geographical limits, Borrower Risk Rating based limits, limits on State Owned Enterprises were imposed on loans and advances last year. Limits were introduced to present value basis point risk of government securities portfolio pertaining to the trading portfolio of Government Securities. The Risk Management Department will closely monitor such limits to ensure the adherence to same. In a rising interest rate regime floating interest rates with floor rates will be imposed on lending whilst discouraging the granting of fixed-interest corporate loan facilities, to manage the interest rate risk. Adherence to the limits imposed for liquidity risk management will continue to be monitored. To strengthen the management of foreign currency risk, currency-wise and tenor-wise limits which have already been imposed will be closely monitored.

We undertake high system availability to ensure an uninterrupted customer service and enhance customer confidence. Prompt attention to any adverse comments about the Bank on social media will be positively taken care and will be used to further safeguard the reputation of the Bank.

On an ongoing basis, we will continue to identify, manage, and assess the internal and external risks that could impede achievement of, or progress of, strategic objectives. Amendments to the strategic plan will be taken by the Management after discussion and careful evaluation.

Principal risk	How we manage it	Key controls (Governance Bodies)	Change in risk level from 2021 (increase/ decrease/ static)	Focus for 2022
Credit risk	(a) Accurate Credit Evaluations Including credit risk pre-review (b) Pre-defined strong credit line – with delegated credit authorities (c) Project Rehabilitation Unit (d) Re-structuring and Re-scheduling (e) BRR and periodic review	(a) BOD (b) BIRMC (c) BECC (d) BIBC (e) ALCO (f) CRMC (g) Risk Management and Credit Control Dept (h) Credit Review Unit (Post grant)	Increased	Ensure a quality loan portfolio by strengthening credit evaluation process, quality of documentation & providing continuous training for credit staff. Assign Regional Risk Officers (RROs) to assess credit quality at branch level & take remedial measures to rectify deficiencies if any.

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Principal risk	How we manage it	Key controls (Governance Bodies)	Change in risk level from 2021 (increase/ decrease/ static)	Focus for 2022
	(f) Implementation of comprehensive Limit set-up (g) Realizable Securities/ collaterals (h) Existence of an approved Credit Procedure Manual (CPM) (i) Continuous follow-ups (including post review) (j) Continuous staff training and development			
Credit concentration risk	Managing limits relevant to concentration risk -Portfolio wise – Sector/industry wise – SBL – Measurement of HHI	(a) BOD (b) BIRMC (c) BECC	Static	Manage Sector/ Counterparty HHI within the industry risk outlook and within risk appetite tolerance accordingly.
Market risk	(a) Floating Rate (b) NOP limits (c) Portfolio limits – Trading/AFS/HTM (d) Stress Testing (e) Monitoring of market risk drivers and triggering events	(a) BOD (b) BIRMC (c) ALCO (d) BIBC (e) Treasury Middle Office (TMO)	Increased	Managing market risk exposure within the set limits and parameters. Closely monitor the pricing of assets and liabilities in line with the market condition.
Interest rate risk	Limit setup for Interest Rate Risk (a) Floating interest rates (b) Narrow down maturity mismatches (c) Deployment of DGap Analysis and stress testing on interest rate	(a) BOD (b) BIRMC (c) ALCO (d) TMO (e) BIBC	Increased	Maintaining interest rate risk within prudential limits to maximize benefits in possible interest sensitivity trends.

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Principal risk	How we manage it	Key controls (Governance Bodies)	Change in risk level from 2021 (increase/ decrease/ static)	Focus for 2022
Equity risk	(a) Portfolio Limit setup – Quoted/unquoted – S&P SL 20/ASPI – Trading/AFS (b) Stress testing on equity stocks (c) Stop loss limits	(a) BIRMC (b) BIBC (c) ALCO (d) Risk Management Department	Increased	More focus on macro-economic factors, share market movements and company performances to manage investments accordingly.
Foreign exchange risk	(a) Limit setup – NOP limits – Intraday and other limits – Counterparty limits – Dealer limits (b) FX Derivatives (c) FX Maturity Gap Analysis	(a) BOD (b) BIRMC (c) ALCO (d) TMO	Increased	Manage FX position within set limits and constructively handle the FX Liquidity position of the Bank.
Liquidity risk	(a) Maintain LCR, SLAR with a Buffer (b) Managing SOE exposure (c) External funding arrangements (d) Manage ADR (e) Manage maturity Gaps	(a) BOD (b) BIRMC (c) ALCO	Increased	Ensue maintain of Regulatory Limits with a sufficient buffer.
Operational risk-	(a) Regional Risk Officers (RRO) (b) Regional Audit Teams (c) Risk and Control Self- Assessment (RCSA) (d) Continuous training and developments (f) Use of digital workflows (g) Monitoring of operational risk limits (h) Whistle blowing policy (i) Maintain and review operational loss database (j) Sufficient insurance coverage for operational losses (k) Sufficient internal controls	(a) BOD (b) BIRMC (c) BAC (d) ORMC (e) Internal Audit (f) Risk Management Department	Static	Ensure sufficient amount of controls and processes are in place and relevant business activities are monitored and evaluated by independent authority levels. Strengthen the RROs job function.

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Principal risk	How we manage it	Key controls (Governance Bodies)	Change in risk level from 2021 (increase/ decrease/ static)	Focus for 2022
People risk	(a) Code of conduct (b) Disciplinary procedure (c) Equal opportunities with talent mapping (d) Social protection (e) Continuous training and development (f) Use of SHRM methods (g) Succession planning	(a) BOD (b) BHRMC (c) HR Department	Static	Maintain HR operational excellence and retention of talents.
Information technology/ Information security Risk	(a) Advanced secured systems (b) Implement IS governing policies (c) DR Plan/DR Centre (d) Access Controls (e) Licensed Software (f) Maintain IT credentials/ standards (g) IS audit (h) Implementation of Information Security Unit headed by CISO	(a) BOD (b) BIRMC (c) BITC (d) IT Steering Committee (e) IT Department (f) ISSC (g) ISOC (h) IS Department (i) ISC	Increased	Minimize the risk associated with manual by improving the digitalisation process further. Proactively identify the IT/IS risk (if any) to take measure and address them immediately. Ensure data protection and securitisation of system sustainability.
Compliance risk	(a) Standards for integrity and ethics (b) Continuous awareness of staff (c) AML/KYC/CFT Policies (d) Review of STR/CTR	(a) BOD (b) BIRMC (c) BAC (d) ORMC (e) Internal Audit (f) Legal Department (g) Compliance Department (h) Company Secretary	Static	Ensure compliance with relevant rules and regulations by strengthening the compliance systems of the Bank.

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Principal risk	How we manage it	Key controls (Governance Bodies)	Change in risk level from 2021 (increase/ decrease/ static)	Focus for 2022
Strategic risk	(a) Timely implementation of the strategic plan (b) Innovative market presence (c) Direct the bank within values and mission statement (d) Periodic review of strategic actions (f) continuous monitoring of KPIs/ STRACTIONS	(a) BOD (b) BSPRC (c) Strategic Planning Department	Static	Focus on changing environments, business models and customer behavior relevant to financial institutions. Successful implementation of the new strategic plan.
Reputational risk	(a) Continuous local and international awards for multi-dimensional aspects (b) Existence of sixty years (c) State ownership (d) Improvement in KPIs (e) Maintaining largest network (f) Maintain business ethics and value at all touch points (g) Range of brands (h) Comply with regulatory and legal requirements (i) CSR activities	(a) BOD (b) BIRMC (c) Marketing Department	Static	Improve brand value in line with customer satisfaction, business dynamics through digital improvements.

CREDIT RISK

Credit risk is one of the Group's key risk exposures, stemming from the loans and advances portfolio, financial guarantees, letters of credit, and acceptances issued and made on behalf of the customers. The risk arises due to the potential loss arising from the failure of a customer or a counterparty to meet their contractual obligations to the Bank. Default risk, concentration risk of counterparties, Rating Migration risk, and business sectors or geographical regions are the forms of credit risk.

OBJECTIVES OF MANAGING CREDIT RISK

- Maintain a well-diversified portfolio through prudent management of the risk asset portfolio
- Achieve an optimal risk-reward pay-off through maximised returns
- Maintain a high portfolio quality and minimise non-performing loans
- Pre-identification of potential credit risk with changing macroeconomic and industry factors

MANAGING THE CREDIT RISK

Credit risk accounts for over 89% of the Bank's risk weighted assets. Hence, credit risk management is an on an ongoing process beyond mere regulatory compliance, conducted under the credit risk framework approved by the Board. The framework includes a risk governance structure including policies, procedures, segregation of authority, risk ratings, collateral management, and credit monitoring.

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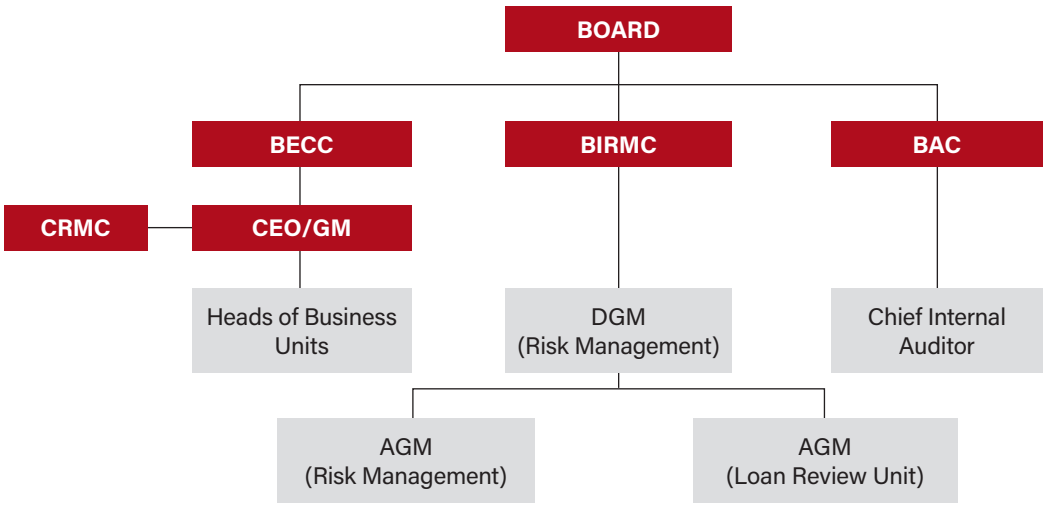
ORGANISATIONAL STRUCTURE FOR CREDIT RISK MANAGEMENT



The Board Executive Credit Committee (BECC) provides oversight to the Bank's credit risk management. The responsibilities of the BECC include:

- Formulating and updating credit policies in consultation with the BIRMC and business units
- Establishing credit approval structures to handle larger and higher risk exposures
- Conducting periodic reviews of individual credit exposures and the overall portfolio to eliminate undue risk concentrations
- Effective management of higher risk exposures and ensuring adequacy of provisions
- Developing and maintaining the risk rating systems
- Sanctioning or declining credit proposals above a predefined limit

MANAGING CREDIT RISK

i. Robust risk policies and control framework

The credit risk framework is reviewed and updated regularly by the BECC, based on evolving best practices and emerging risks and opportunities.

The credit policy – which is approved by the Board – defines the Bank's credit culture, prudential limits in line with the defined risk appetites, and remedial and recovery actions.

ii. Culture of responsible lending

A culture of risk awareness and responsible lending is nurtured across the Group through a robust internal communication process and staff training programmes. Whilst customers are given adequate explanations about the credit on offer, a thorough customer credit evaluation is conducted prior to offering credit facilities or increasing the credit limit. The internal credit rating models represent diverse risk factors and predict the probability of default and loss.

iii. Segregation of authority

The final authority and responsibility for all credit risk exposures is vested with the Board of Directors. Approval for credit authority limits have been delegated to the CEO by the Board. The CEO has the authority to re-delegate approval limits to credit committees and business lines. Each business line has clearly articulated and approved multi-level risk acceptance criteria and credit approval authority. All post-disbursement material changes to a credit facility (such as revision in tenure, covenants, or collateral structure) need approval. Segregation of responsibility for risk assessment and post monitoring facilitate effective implementation of credit appraisal guidelines and specialisation of skills.

Credit approval authorities are assigned to individuals according to their respective grade and periodic reviews are carried out.

iv. Risk rating of obligors and prudential limits

The Bank evaluates the creditworthiness and assign ratings to borrowers by adopting a range of measures including in-house assessment methodologies, scorecards, and a nine-points rating scale. Each category of borrower has different risk rating scorecards, which are periodically reviewed and validated by the BIRMC.

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v. Credit risk mitigating and collateral management

Diverse methods are applied to mitigate potential credit losses from any given account, customer, or portfolio. These include restructuring, collateral, netting agreements through credit insurance, credit derivatives, and guarantees. Collaterals are obtained according to the Bank's collateral policy and the main types of collaterals are movable and immovable property mortgages, cash deposits, plant and machinery, mortgages on stocks, book debts, corporate, and personal guarantees.

vi. Credit monitoring and review

Credit risk positions are actively monitored and managed on an ongoing basis. Credit monitoring is conducted by the credit officers attached to business units, in close cooperation with the Credit Control Department. The credit officers have the relevant expertise and experience to manage the credit risks of their customers. Every credit officer is responsible to monitor the credit of their respective portfolio of borrowers on an ongoing basis.

Internal borrower risk rating and reviews are conducted on all exposures exceeding LKR 500,000.00 by the BIRMC annually. Quarterly reports are submitted to the credit committees on deteriorating credits, which are identified and monitored closely. Non-performing assets are identified at an early stage, facilitating appropriate remedial action by the Management.

vii. Impairment

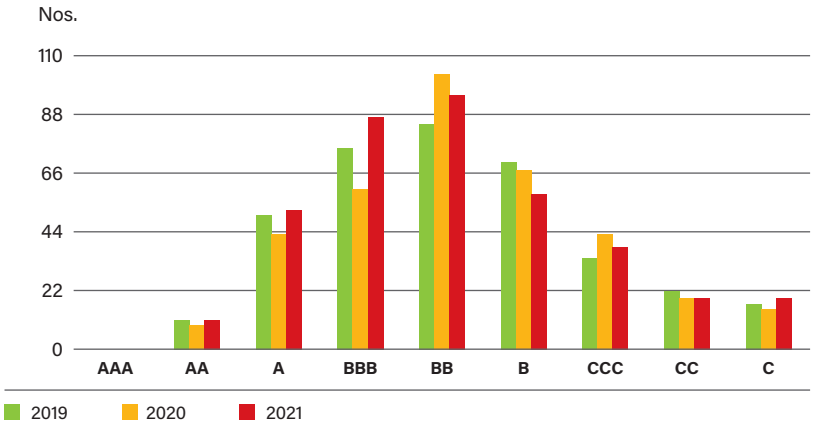
A comprehensive and robust impairment policy is in place to deal with defaulting customers. The provision for loan impairment is recorded as a reduction of the carrying amount of the loan in the balance sheet. Provisions for loan impairment are made in the income statement and impairment assessments are conducted for all exposures of the Group.

As at 31 December	2021	2020	2019	2018	2017	2016
NPL ratio (%)	3.2	3.2	3.3	2.5	1.9	1.9
Provision cover ratio – Bank (%)	74.8	64.5	60.0	72.3	97.5	110.4
Provision cover ratio – Industry (%)	71.7	61.3	52.3	57.4	69.9	71.8

CREDIT RISK PERFORMANCE REVIEW

Net loans and advances have increased by 12% YOY basis to LKR 1833.3 Bn. at the end of 2021, which represented 70% of the total assets in the Statement of Financial Position at the end of the reporting period. Asset quality of the loan portfolio shows marginal improvement from 3.25 to 3.21 by the year end of 2021 and remains at a very comfortable level compared to the industry average of 4.5%. Slow recovery of adverse economic condition due to continuity of COVID-19 impact during the year coupled with dollar restrictions contributed to the slow growth of the loan book and assets quality to be remain deteriorated level within the industry.

RISK PROFILE OF CORPORATE CUSTOMERS



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MAXIMUM CREDIT EXPOSURE OF PEOPLE'S BANK

	Number of corporate customers	
Risk rating	31 December 2021	31 December 2020
AAA		
AA	11	9
A	52	43
BBB	87	60
BB	95	103
B	57	67
CCC	38	43
CC	19	19
C	19	15

CREDIT MIGRATION RISK

Migration risk is a credit risk that occurs due to the deterioration of the credit rating of a borrower over a period, which then triggers the decline of creditworthiness. This is evidenced by the down grading of the customer portfolio rating. The Bank closely observes the migration of corporate customer portfolios in periodical manner. The number of corporate customers downgraded over the last four years is given in the table below:

year	Number of customers in transition	percentage of downgraded customers
2017	346	16
2018	322	19
2019	318	20
2020	320	21
2021	321	11

DEFAULT RISK

Default risk is the potential loss arising as a result of the borrower or counterparty not fulfilling the contractual obligations on a loan agreement.

A healthy portfolio was maintained through stringent credit evaluations, post-disbursement monitoring, and a high collection ratio. The Bank's non-performing loan (NPL) ratio of 3.47% for 2021 was well below the industry average of 4.5%

Managing default risk

All our credit exposures are closely monitored on a continuous basis using risk management tools such as NPL/ overdue analysis, rating migration analysis etc. Robust processes are in place to identify at an early stage, credit exposures which have high risk of loss. Such exposures are generally placed on a watch list and are managed closely to maximise recovery.

CONCENTRATION RISK

Concentration risk is the level of risk in the Bank's loan and advances portfolio arising from concentration to an individual counterparty, industry sectors, or geographic regions. As a state-owned bank, People's Bank has acquired exposures to State Owned Enterprises (SOEs), pawning, and housing financing aligned to the Government's development agenda.

Concentration of large exposures (over LKR 100 Mn. as at 31 December 2021)

As at 31 December	Number of industry sectors	Number of individual customers	Direct exposure LKR Mn.	Indirect exposure LKR Mn.	Total LKR Mn.	Direct exposure as a percentage of balance sheet
With SOE	18	368	1,095,013	245,073	1,340,086	71.71
Without SOE	17	323	165,460	50,730	216,190	11.57

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Position of Bank's Top 20 customers as at 31 December 2021

Year	Top 3 %	Top 5 %	Top 10 %	Top 20 %
Including SOE				
2020	59	67	76	82
2021	60	68	77	83
Excluding SOE				
2020	11	15	25	41
2021	10	14	24	38

Managing concentration risk

The measures adopted to monitor and control concentrations are the single borrower limit and the Herfindahl-Hirschman Index (HHI). HHI index is calculated for all exposures (the greater of limit or outstanding) above LKR 100 Mn. (direct and contingent) based on counterparty name and sector. The Bank's portfolio is segmented into 17 industry sectors. The table below shows the tolerance levels for each degree of concentration.

Metric	Low concen-tration	Moderate concen-tration	High concen-tration
HHI	<0.15	0.15 - 0.25	>0.25

Credit risk stress testing

Credit risk stress testing is conducted to determine how certain scenarios impact the Bank's capital adequacy levels. The stress testing report is forwarded to the BRMIC for review.

	Minor	Moderate	Major
Increase In NPLs	Magnitude of shock -5%	Magnitude of shock – 10%	Magnitude of shock – 20%
Revised core capital ratio	12.44	12.31	12.06
Revised total capital ratio	17.71	17.58	17.33
Adverse movements within NPL Categories	Magnitude of shock – 50%	Magnitude of shock – 80%	Magnitude of shock – 100%
Revised core capital ratio	12.32	12.18	12.09
Revised total capital ratio	17.59	17.45	17.36
Fall in the FSV of collateral held by the Bank	Magnitude of shock – 5%	Magnitude of shock – 10%	Magnitude of shock – 15%
Revised core capital ratio	12.47	12.38	12.29
Revised total capital ratio	17.74	17.65	17.56
Slippage of performing loans to NPLs	Magnitude of shock – 1%	Magnitude of shock – 2%	Magnitude of shock – 3%
Revised core capital ratio	12.08	11.61	11.13
Revised total capital ratio	17.35	16.88	16.4
Defaults by large borrowers	Magnitude of shock – 5%	Magnitude of shock – 7.5%	Magnitude of shock – 10%
Revised core capital ratio	12.38	12.3	12.21
Revised total capital ratio	17.66	17.57	17.48

People's Bank's quarterly position for the financial year 2021

	31 March 2021	30 June 2021	30 September 2021	31 December 2021
Name concentration (with SOE)	0.16	0.15	0.15	0.15
Name concentration (without SOE)	0.01	0.01	0.01	0.01
Sector concentration (with SOE)	0.23	0.23	0.17	0.16
Sector concentration (without SOE)	0.14	0.14	0.09	0.14

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MARKET RISK

Market risk is the probable loss that could arise due to movement in market driven variables such as interest rates, exchange rates, equity, and commodity prices. The Bank's key market risk categories are interest rate risk, foreign exchange risk, equity risk, and commodity risk.

People's Bank is exposed to market risk mainly from the interest rate risk arising from trading and non-trading books and its exposure to gold prices through its pawning portfolio. The Bank's exposure to foreign exchange risk is moderate due to proprietary trading and foreign currency denoted transactions of the Bank. Exposure to equity risk is limited due to the low trading portfolio.

Objectives of market risk management

- Optimise the risk-reward relationship of business units within the predefined risk appetite
- Avert exposure to unacceptable losses
- Ensure all operations of the Bank are within the defined risk appetites

Market risk exposure of People's Bank

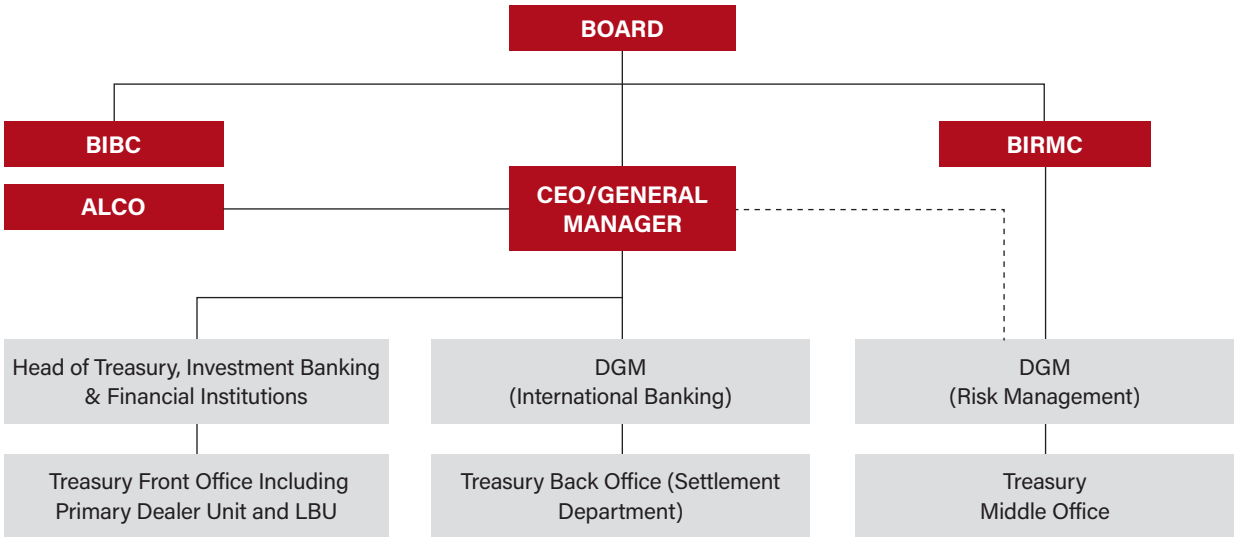
	2021		2020	
	Trading Book LKR Mn.	Non Trading Book LKR Mn.	Trading Book LKR Mn.	Non Trading Book LKR Mn.
Assets				
Treasury bills	273	–	44,999	16,688
Treasury bonds	1,004	573,471	1,164	327,355
SLDB	–	2,678	–	4,771
GOSL bonds	–	7,689	–	7,689
Other investments	282	15,184	263	24,589
Liabilities				
Debentures	–	48,862	–	43,558

GOVERNANCE OF MARKET RISK MANAGEMENT

At Board level, the BIRMC has the responsibility to monitor the Bank's market risk exposure, formulate policies and risk appetite limits, and provide recommendations to the Board on management of market risk.

At executive level, the Asset Liability Committee (ALCO) is responsible to implement the market risk management framework and maintain the market risk exposures within the defined risk appetite. The Risk Management Department is responsible for the daily risk management activities, including market risk assessment, monitoring, and reporting.

The Treasury Middle Office (TMO) measures and monitors the Bank's treasury transactions independently from the Treasury Front Office and Back Office functions. The TMO ensures compliance to risk limits set by the Board.



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Managing market risk

A combination of policies, risk assessment measures, and risk limits are used to manage market risk.

1. Policies

The Bank's market risk management policy framework includes several policies including the asset and liability management policy, treasury management policy, foreign exchange risk policy, and stress testing policy. These policies provide the framework for risk identification, assessment, mitigation, monitoring, and reporting of all market related risks.

2. Risk assessment

The tools adopted for market risk assessment include Value at Risk (VaR), duration gap, sensitivity analysis, and stress testing. The valuation rates and methodologies are subject to independent verification.

3. Market risk limits

Market risk limits are assessed and recommended to ALCO and thereafter to BIRMC approval. Limits such as open position limits, counterparty limits, and dealer limits are defined based on approved market risk limits. The limits are monitored based on product, sector, credit rating, and geography. The TMO monitors performance against the limits and reports to ALCO on a monthly basis. These limits are regularly reviewed by ALCO based on potential market dynamics and if necessary, the limits are revised to narrower bands.

Market risk limits and positions as at 31 December 2021

Market risk	Market risk appetite	
	Approved limit	Year ending 31 December 2021
Fx Net Open Position	USD+ 10 Mn.	
	USD - 25 Mn.	Complied
Value at Risk (VaR) (Conf. Level 99%, 1 day)	USD 250,000	Complied
Cumulative Losses		
– Fx Trading	USD 175,000	Complied
– FIS Trading (realised)	LKR 25 Mn.	Complied
– (unrealised)	LKR 500 Mn.	Complied
Forward Fx Gap Limit	USD 2,500 months millions	Complied
GOSL Securities – Trading	LKR 250 Bn.	Complied
– Investment	LKR 750 Bn.	Complied
– AFS	LKR 20 Bn.	Complied
International Sovereign Bond – Trading	USD 20 Mn.	Complied
– Investment	USD 200 Mn.	Complied
Sri Lanka Development Bonds (SLDB)	USD 750 Mn.	Complied
Interbank Borrowings – Total limit	USD 933 Mn.	Complied
– Short term limit	USD 233 Mn.	Complied
Present Value Basis Point (PVBP) Limit	LKR 25 Mn.	Complied
Investment value of Share Trading Portfolio	Port1: LKR 1,000 Mn.	Complied
	Port2: LKR 1,000 Mn.	Complied
Stop Loss Limit (Share Trading)	40%	Complied
Percentage of shares on the S&P SL20 Index	Min 25%	Complied
Gilt Unit Trust	LKR 2.5 Bn.	Complied
Corporate Debt Limit (Debentures)	LKR 15 Bn.	Complied
Interest Rate Risk (DGap+VaR on Fwd FX)	LKR 11.94 Bn.	Limit breached*

** Increase of HTM portfolio (LKR 334 Bn.) and its duration (0.52) resulting high D_A (Asset Duration).*

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4. Action trigger points

The risk thresholds that trigger specific management action are specified in order to ensure market risk exposures are maintained within the levels defined by the risk appetite statement.

Market risk review

Market Risk of the bank is derived from the supply and demand forces mainly interest rates, exchange rates and equity prices in the market and it is the sensitivity of the bank's earnings or the economic value of its capital to adverse changes in aforementioned key sources. The Bank manages and mitigates its market risk properly by ensuring stringent policies and procedures which are in place to manage various aspects that contribute to market risk through a well-defined governance structure. This has allowed for market risks to be identified, assessed, controlled, and reported to ensure that the Bank operates within the allocated risk appetite levels. The Bank's Treasury has complied with approved limits in place in much extent and approvals were obtained to manage risks in foreseeable manner, managing the overall market risk although the socio-economic impact of the country has a direct and substantial impact on the Bank's operations to a certain extent. The Bank has strictly complied with the guidelines and directives issued by the Government and the Central Bank of Sri Lanka in a professional manner by reviewing the market condition regularly.

Interest rate risk (IRR)

The Bank's exposure to interest rate risk arises as a result of the net interest income being impacted by extreme fluctuations in market interest rates. This has a potential impact on the underlying interest-bearing assets, interest-bearing liabilities, and off-balance sheet items.

Sub-categories of interest rate risk:

- **Repricing risk** – arises due to the timing difference in repricing Bank assets and liabilities with varying maturities
- **Basis risk** – arises from the differences in actual interest margin and expected interest margin of the banking book and the implied cost of funds
- **Yield curve risk** – arises from negative impact on the Bank's earnings/asset values due to shifts in the yield curve

Earnings at risk over one year horizon (net impact of 1%)

	Up to 1 month	1-3 months	3-6 months	6-12 months
Net assets (LKR Mn.)	(226,698)	(112,481)	57,310	(562,863)
Loss for change in 1% (LKR Mn.)	(93)	(187)	(215)	(4,221)

Managing interest rate risk

The power to approve the risk appetite for interest rate risk and set the overall limits for VaR and Earnings at Risk (EAR) are vested with the Board.

The guidelines for identifying, measuring, managing, and reporting compliance of all interest rate risk positions in the banking and trading books are provided by the Bank's market risk policy. The Treasury is responsible for managing the interest rate risk within the risk appetite whilst the Middle Office is responsible for monitoring the interest rate risk.

Techniques such as Duration Gap Analysis, VaR, and Earnings at Risk (EAR) are adopted to measure the interest rate risk. The duration gap and overall exposure to interest rate risk is ascertained by grouping rate sensitive assets and liabilities based on their maturity period.

ALCO is responsible for repricing the Bank's asset and liability portfolio and continuously monitoring the maturity mismatches and trends in market interest rates. The potential impact on Bank's earnings and capital due to changing economic indicators is gauged by regular stress testing on IRR exposures of the banking and trading books.

Every exposure is measured in Sri Lankan rupees and the totals of all currencies are aggregated after calculating the net total of each maturity band for each currency. Currencies that exceed 25% of total deposit liabilities are reported separately.

Interest rate risk is measured and monitored monthly and taken up for discussion at ALCO meetings.

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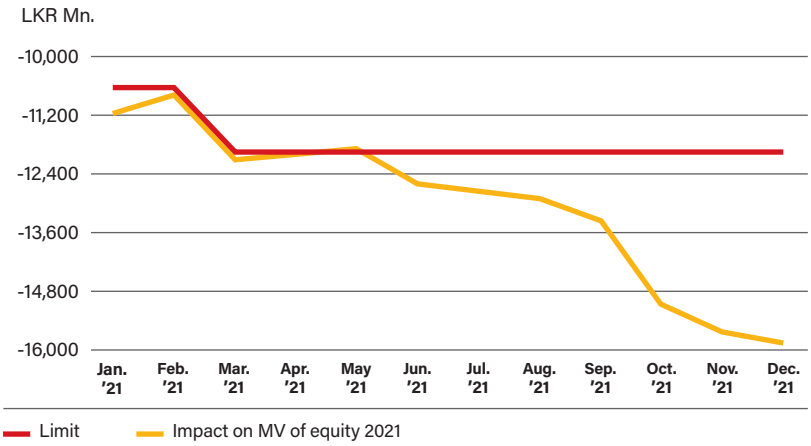
ALM mismatches for 2020 and 2021

2021	Upto 1 month LKR Mn.	1-3 months LKR Mn.	3-6 months LKR Mn.	6-12 months LKR Mn.	1-3 years LKR Mn.	3-5 years LKR Mn.	Above 5 years LKR Mn.
Rate sensitive assets	309,297	225,075	323,262	603,621	156,123	191,839	607,587
Rate sensitive liabilities	535,995	347,556	265,952	1,166,484	27,390	52,370	3,232
Period gap	(226,698)	(122,481)	57,310	(562,863)	128,732	139,469	604,355
Cumulative gap	(226,698)	(349,179)	(291,869)	(854,732)	(725,999)	(586,531)	17,824

2020	Upto 1 month LKR Mn.	1-3 months LKR Mn.	3-6 months LKR Mn.	6-12 months LKR Mn.	1-3 years LKR Mn.	3-5 years LKR Mn.	above 5 years LKR Mn.
Rate sensitive assets	226,910	286,110	236,350	456,885	148,707	169,317	535,889
Rate sensitive liabilities	332,581	336,345	262,878	963,984	33,619	9,951	75,812
Period gap	(105,672)	(50,235)	(26,528)	(507,099)	115,088	159,366	460,077
Cumulative gap	(105,672)	(155,906)	(182,435)	(689,533)	(574,445)	(415,080)	44,997

IMPACT ON MV OF EQUITY DUE TO 1% ADVERSE INTEREST RATE CHANGE USING DURATION GAP ANALYSIS



IRR stress testing

	Magnitude of shock – 0.25%	Magnitude of shock – 0.50%	Magnitude of shock – 1.00%
2021			
Impact on earnings (LKR Mn.)	3,966	7,932	15,863
Revised overall CAR (%)	17.38	16.92	16.02
2020			
Impact on earnings (LKR Mn.)	2,736	5,471	10,942
Revised overall CAR (%)	15.14	14.82	14.16

Interest rate risk review

Interest Rate Risk arises from the possibility that adverse movements/ fluctuations in interest rates will affect the exposure of the Bank's financial condition and future cash flows or fair values of financial instruments. Risk arising from movement of interest rates time to time during the period was able to manage through timely review of changes in the underlying value of bank's assets, liabilities and off-balance sheet items and its economic value Accepting this risk is an integral part of the banking business and may even be an important source of profitability and shareholder value. The Bank has taken adequate measures to identify, monitor, control, and report interest rate exposures primarily through ensuring compliance to the prescribed limits. The Bank carries a significant portfolio of Government Securities and the amount of risk associated with the same depends on how sensitive its prices are to interest rate changes in the market. Supervision and close monitoring are in place to ensure adherence to all internal and regulatory risk mitigation initiatives and trends in market interest rates, thereby managing the interest rate risk in a prudent manner.

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Foreign exchange risk

Foreign exchange (FOREX) risk arises as a result of the Bank's earnings and/or capital being impacted due to adverse fluctuations in exchange rates. The Bank's exposure to FOREX risk arises from foreign currency denominated transactions such as import/export transactions, remittances, and proprietary trading.

Managing foreign exchange risk

Foreign exchange transactions are governed by a stringent regulatory framework. Whilst the CBSL sets the approval mechanism and limits, the Bank sets stringent volume limits within the regulatory confines and limits defined by ALCO on open positions for individual currency exposures and aggregate exposures. Risks arising from FOREX maturity gaps within the Bank's risk appetite are managed through forward maturity gap limits. The Treasury Department is responsible for the overall management of FOREX risk. The clear segregation of duties between the Front, Middle, and Back Office functions of the Treasury Department ensure an effective internal control mechanism. Monitoring of open positions, assets and liability maturities, currency exposures, and aggregate exposures are independently conducted by the middle office.

VaR calculations and stress testing are carried out on portfolios exposed to FOREX risk. Parallel VaR calculations are conducted by the Bank's Treasury Management System (based on Finacle) and the internationally accepted Bloomberg system. The potential impact on the Bank's profitability and capital adequacy levels are measured through stress testing.

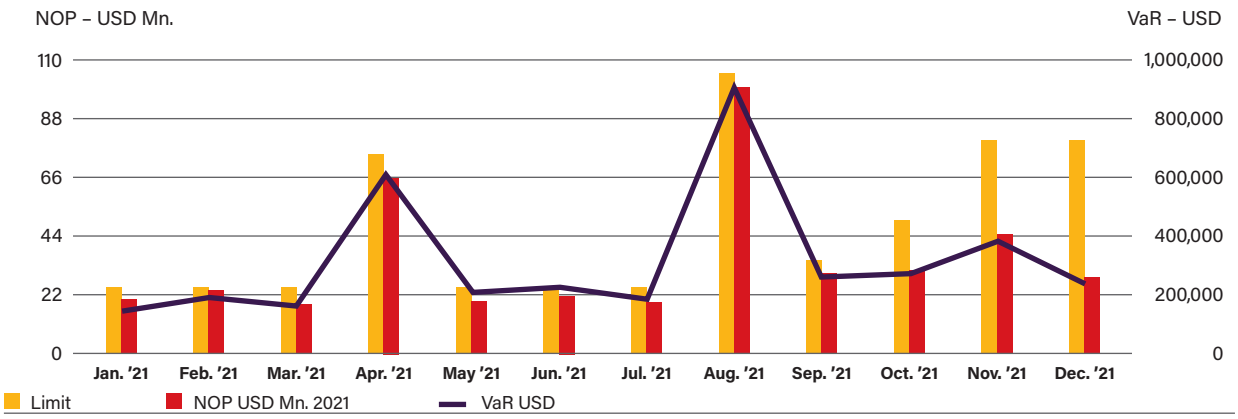
Position as at 31 December 2021

Currency	Net exposure FC equivalent ('000)	Net exposure Rupee equivalent ('000)
US Dollar	3,421	686,786
Euro	143	32,500
Great Britain Pound	269	73,099
Japanese Yen	1,901	3,316
Singapore Dollar	42	6,241
Chinese yuan renminbi	139	4,381
Australian Dollar	29	4,162
other	–	392,897

Exchange rate risk stress testing

	Magnitude of shock -0.25%	Magnitude of shock -0.50%	Magnitude of shock -1.00%
2021			
Impact on earnings (LKR Mn.)	151	301	452
Revised overall CAR (%)	17.82	17.80	17.78
2020			
Impact on earnings (LKR Mn.)	141	282	423
Revised overall CAR (%)	15.46	15.44	15.42

MONTH END FX NOP AND DAILY VAR DURING 2021



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FOREIGN EXCHANGE RISK REVIEW

Foreign Exchange risk is the potential loss arising from fluctuations of value in a financial instrument due to changes in foreign exchange rates which is also a financial risk that exists when a financial transaction is denominated in a currency other than the domestic currency. Due to the lack of liquidity in the USD interbank foreign exchange market and due to the pressure on the USD/LKR exchange rate, the bank faced several challenges during the year and the critical situations are well managed with the assistance of Central Bank of Sri Lanka. Ensuring that the Treasury Staff adhere to the strict limits, maintains FX exposure within the permitted parameters at all times, and has enabled the Bank to manage the foreign exchange risk prudently. Stringent risk tolerance limits are defined and are independently monitored daily. This allows the treasury dealers to operate within these boundaries and mitigate the risk emanating through these exposures by ensuring that potential losses arising out of fluctuations in FX rates are minimized and maintained within the Bank's risk appetite.

EQUITY PRICE RISK

A decline in market value of a security or a portfolio due to fluctuations in equity prices gives rise to equity price risk. The Bank's exposure to equity price risk stems from the available-for-sale investment portfolio, excluding the strategic investments in subsidiaries. The Bank's equity risk exposure is relatively limited as a result of the low investments in equity shares.

Managing equity risk

The formulation of policies related to investments and managing of investments within the defined risk appetite is conducted by the Board Investment Committee (BIC). The procedures, tools, and techniques for managing equity risk- including volume and stop loss limits- are clearly articulated by the Board approved, Investment Banking Policy Manual. The movement in share market prices, performance of entities, and the macroeconomic conditions are regularly monitored by the BIC.

Independent evaluations on proposed equity transactions, impairment assessments, and exposures against limits are carried out by the market risk function operating under the Bank's Risk Management Department. The Unit also maintains independent oversight over the non-traded equity risk framework.

Stress testing of equity risk

	Magnitude of shock -5%	Magnitude of shock - 10%	Magnitude of shock- 15%
Max market value of equity portfolio	62	124	248
Fair value of strategic equities	20	40	81
Total impact	82	164	329

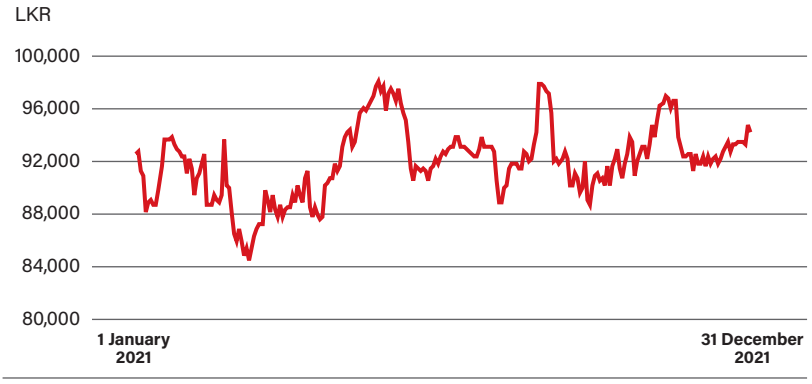
Equity price risk review

Equity price risk is the possible losses arising from prices or volatilities in individual equities. Although the equity market is highly vulnerable, the Bank's equity portfolio is insignificant compared to its overall asset portfolio, and thus the risk emerging from the equity portfolio is negligible. Colombo Stock Exchange trading was halted several times highlighting the mounting economic crisis prompted by a shortage of dollars and surging inflation. Despite all continuous follow up of the economic conditions of country/globe, market perception on equity markets, has helped the IBU to correctly read the equity market and take strategic equity investment decisions. This, together with ensuring the strict adherence to the limits set by the Board of Directors has enabled the Bank to mitigate and manage the equity risk efficiently.

COMMODITY RISK

People's Bank's exposure to commodity risk stems from the pawning portfolio which holds gold collateral. The Bank holds a high market share in the pawning market. Gold is impacted by fluctuations in gold prices.

GOLD PRICE MOVEMENT IN 2021



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Managing commodity risk

Commodity risk is managed through a meticulous process. A series of pre-disbursement measures are carried out including determining the gold content of the pawned articles, conducting due diligence of customers, maintaining prudent loan to value ratios, continuous assessment of gold prices and competitor offerings, and through obtaining an insurance cover against losses arising from stolen articles.

The post-disbursement measures include conducting independent valuation of pawned items regularly, daily verification of a sample of 5%, and regular auctioning of unredeemed articles.

Commodity risk review

Commodity risk is the exposure to changes in prices and volatilities of commodities. The Bank has a negligible exposure to commodity price risk as the Bank is not engaged in commodity trading at present and its only exposure to commodity risk is associated with the Bank's pawning business. The Bank has been a pioneer of pawning activities and its exposure is backed by gold, which is considered readily resalable. Through assigning risk weights imposed by the regulator, The Bank has taken measures to manage and mitigate the inherent risk in pawning through maintaining a comfortable level of LTV ratios. In addition, gold market prices are periodically assessed, analyzed, and monitored by ALCO along with competitor product features. The Bank has highly sophisticated equipment in their pawning centers to accurately assess the gold. Although the Bank staff handling pawning are well experienced and have the relevant expertise, regular training is provided to such staff to update their awareness on new technology related to pawning activities and the risk areas that require staff concentration. Insurance coverage is in place for the pawning portfolio. Impairment provisions are made with market gold value while regular auctions are conducted to recover the defaulted advanced. Furthermore, the Bank has provided the option of a monthly repayment plan for customers – available via our self-banking units as well- to ease their financial burden. All these measures have enabled the Bank to manage and mitigate its commodity risk associated with pawning activities prudentially.

LIQUIDITY RISK

Liquidity risk arises due to the Bank's inability to meet its contractual obligations without incurring unacceptable losses. This generally occurs due to a loss of capital and/or income when converting a security or hard asset to cash.

Objectives of liquidity risk management

To enable the Bank to meet its funding commitments when they are due, the Bank weathers liquidity stresses and manages liquidity and funding risks within its risk appetite.

Managing liquidity risk

A well-articulated liquidity risk management framework is in place to ensure sufficient liquidity is maintained to meet its contractual obligations on time. ALCO ensures compliance with internal liquidity targets and regulatory liquidity requirements by providing oversight, managing liquidity risks, and continuously monitoring the Bank's liquidity position. The Head of Treasury is responsible for the daily management of the Bank's funding and liquidity positions within the stipulated risk limits. The Bank's liquidity levels are continually monitored independently by the TMO and any breaches are reported. The performance of key liquidity indicators is regularly reviewed by the Board, BIRMC, and ALCO to ensure they are within the defined parameters.

Liquidity risk management framework

The key aspects of the liquidity management framework are:

1. Measuring liquidity

The Bank adopts the dual flow approach and the stock approach to measure liquidity. The mismatches of inflows and outflows in different time bands are analysed using the flow method, based on the maturity of assets and liabilities. The stock approach measures the liquidity using key ratios such as the loans to deposit ratio, commitments ratio (unutilised portion of overdrafts/unutilised interbank lines), statutory liquid asset ratio, and cumulative mismatches.

2. Diversified funding base

The Bank sources liquidity from multiple sources based on market conditions, regulatory considerations, and interest rate movement trends. Deposits are the largest funding source amounting to 78.2% of the Bank's total funding base, followed by other borrowings (9.1%) and shareholders' funds (5.1%). The Bank has a relatively high proportion of savings, which is considered a quasi-stable source of funds.

3. Contingency fund plan

The Bank has a comprehensive Contingency Funding Plan (CFP) to provide guidance on managing liquidity requirements in stressed conditions. This is to ensure the protection of stakeholder interests and the maintenance of market confidence in the event of a liquidity crisis. The CFP articulates specific trigger points for activation and the responsibilities of the CFP team comprising of ALCO and the Head of Marketing and Research.

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The CFP will be activated in the following scenarios:

- Statutory liquid asset ratio falling below 20% over a month
- 25% increase in interbank call money rates for over seven consecutive days
- Over 50% increase in NPL ratio
- Larger than expected deposit withdrawals
- Consolidated AD ratio exceeding 105% for more than 15 days
- Call facilities being withdrawn by market participants or imposing a premium over the market rate for the Bank's borrowings
- Credit rating downgraded by more than two notches

Key Indicators	Position as at 31 December 2021 %
Loans to Deposit Ratio	
LKR	79.00
Foreign Currency	217.79
Commitments Ratio	
Statutory liquid assets ratio	
DBU	23.52
FCBU	25.94

	DBU				OBU			
	Balance as at 31/12/2021	Minor	Moderate	Major	Balance as at 31/12/2021	Minor	Moderate	Major
Magnitude of shock		5%	10%	15%		5%	10%	15%
Liquid Assets (LKR Mn.)	502,576				239,417			
Total Liabilities (LKR Mn.)	2,137,210				923,103			
Scenario I – Increase in Total Liabilities and Assets other than liquid assets								
Increase in Liabilities (LKR Mn.)		106,861	213,721	320,582		46,155	92,310	138,465
Revised Total Liabilities (LKR Mn.)		2,244,071	2,350,931	2,457,792		969,258	1,015,413	1,061,568
Revised Liquid Assets (LKR Mn.)		502,576	502,576	502,576		239,417	239,417	239,417
Liquid Asset Ratio after shock	23.52%	22.40%	21.38%	20.45%	25.94%	24.70%	23.58%	22.55%
Scenario II – Fall in Liquid Assets and Increase in other Assets while Liabilities remain same								
Fall in Liquid Assets (LKR Mn.)		25,129	50,258	75,386		11,971	23,942	35,913
Revised Total Liabilities (LKR Mn.)		2,137,210	2,137,210	2,137,210		923,103	923,103	959,016
Revised Liquid Assets (LKR Mn.)		477,447	452,318	427,190		227,446	215,475	203,504
Liquid Asset Ratio after shock	23.52%	22.34%	21.16%	19.99%	25.94%	24.64%	23.34%	21.22%
Scenario III: Fall in Total Liabilities and Liquid Assets by the same amount								
Fall in the Liabilities (LKR Mn.)		106,861	213,721	320,582		46155	92310.3	138465
Revised Total Liabilities (LKR Mn.)		2,030,350	1,923,489	1,816,629		876948	830793	784638
Revised Liquid Assets (LKR Mn.)		395,716	288,855	181,995		193262	147107	100952
Liquid Asset Ratio after shock	23.52%	19.49%	15.02%	10.02%	25.94%	22.04%	17.71%	12.87%

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Liquidity risk review

The Bank manages liquidity risk, in accordance with regulatory guidelines and international best practices. The objective of the Bank's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and market access remains cost effective. Contractual and behavioral maturity of assets and liabilities, key liquidity ratios, monthly liquidity forecasts and gaps are reviewed at Assets and Liability Committee (ALCO) meetings. The bank has maintained Capital Adequacy Ratios above the regulatory minimum levels. Although the Liquid Assets Ratios for DBU was at comfortable level which is above the required ratio of 20%, Liquid Assets Ratios for OBU was below the required ratio of 20% due to foreign currency stress in the market. Liquidity Coverage Ratio for all currency and local currency were above the required regulatory ratios throughout the year.

Liquidity risk exposure is managed by treasury with limits and triggers set to ensure that sufficient liquidity surplus and reserves are available to meet daily business requirements and also to deal with a sudden liquidity shock. Treasury reports the Bank's overall liquidity position to management on a daily basis. The bank has obtained proactive measures to manage the assets and liabilities mismatches through better liquidity risk management strategies.

OPERATIONAL RISK

Operational risk is the direct or indirect risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events such as natural disasters, social events, or political events. As per the Basel II definition, operational risk includes legal risk but excludes strategic and reputation risk. Operational risks exist in the natural course of business activities, products, and processes. The Bank is exposed to operational risks such as technology risk, people risk, and legal risk.

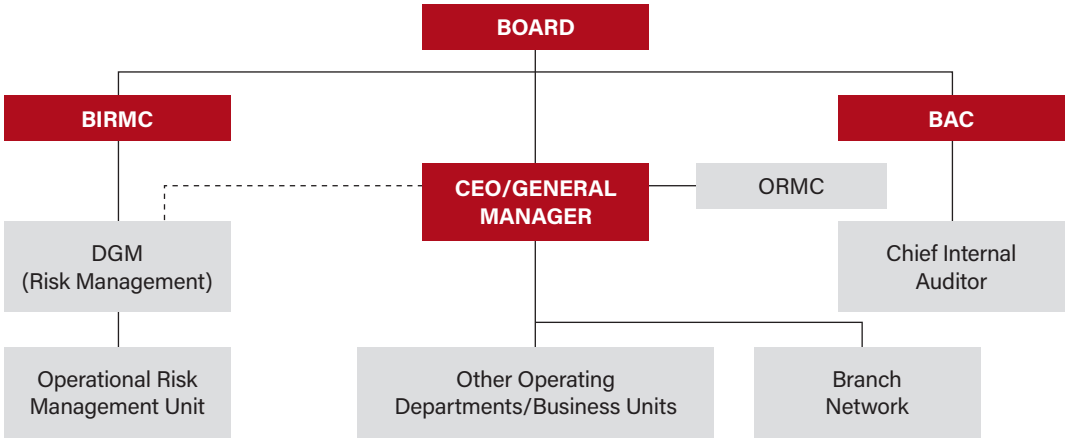
Objectives of operational risk management

- Avoid potentially large risk losses by minimising losses from operational failure
- Manage risk cost-effectively across the Bank by developing a common understanding of operational risk across multiple functions and business units
- Effectively respond to critical and catastrophic risks by building and improving internal capabilities
- Realise cost savings through better management of internal resources and effective control of Bank operations

Managing operational risk

As projected by Basel II, operational risks have been categorised under seven broad areas. The policies, structures, and processes to managing operational risk exposure is articulated by the Bank's Operational Risk Management Framework. The Board is supported by the BIRMC to formulate policy and implement a robust operational risk management framework within the Bank. The branches and business units form the first line of defence – to identify operational risks at the point of origination. They report the operational loss events to the Risk Management Division which maintains a database. The Bank has instituted structured mechanisms to measure, assess, and report operational risks within the Bank. The Internal Audit conducts periodic reviews of the entire operational risk management process across the network to provide assurance to the Board and Senior Management.

Governance structure of operational risk management function



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i. Identification and assessment of operational risk

The Risk Management Department together with business units identify potential areas of operational risk. All staff members are given training on operational risk exposures and are engaged proactively to identify and assess these risks.

Key business units conduct Risk and Control Self-Assessments (RCSA) to evaluate exposures according to defined operational risk parameters. Along with loss events and near misses reported by business units, the key findings of RCSA help to identify and devise action plans for potential gaps in risk management. Operational risk is assessed on new products, processes, and activities on an ongoing basis.

ii. Limits and tolerance levels

The Board has defined specific limits and tolerance levels for operational risk indicators in the Bank's Risk Appetite Statement. These include the total value of operational losses as a percentage of operational expenses, the number of internal and external loss events, and the percentage of branch audits rated less than average. Regular reporting to the BIRMC and Board helps to ensure corrective actions are initiated when needed.

iii. Mitigating operational risk

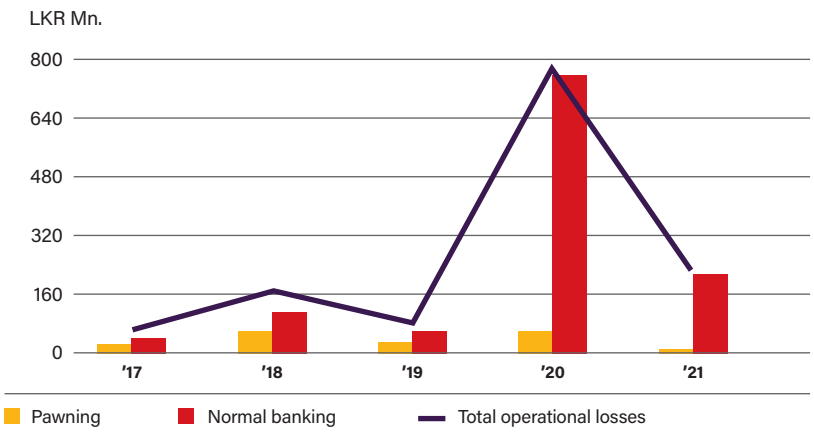
Risk mitigation policies and programmes are implemented to maintain a sound operating environment within the Bank. These include:

- Implementing a comprehensive framework of operational risk policies and procedures
- Crisis management procedures and disaster recovery plans to ensure business continuity
- Segregation of duties
- Transferring of operational losses to third party through insurance
- Adopting stringent measures to select and monitor outsourced partners
- Creating a culture of risk awareness by providing continuous training to staff
- Prior to the launch of new products and services, conducting a thorough analysis of the potential impact of operational risk
- Operational Risk Management system in compliance to Basel II guidelines

Risk reporting

Systematic identification of root cause, trends and frequency of risks are facilitated by maintaining a database of operational risk events, losses, and near misses by the Risk Management Department. Information of significant loss events, emerging issues, risk oversight, monitoring, and reviewing of risks are reported through quarterly reports. This information is included in the risk committee reports which are presented to the BIRMC and/or ORMC. Based on the potential impact and frequency of the risk, control failures are reported to the Operational Risk Management Committee.

OPERATIONAL LOSSES



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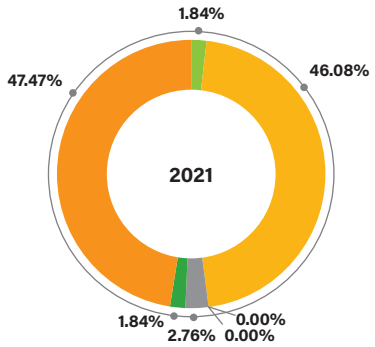
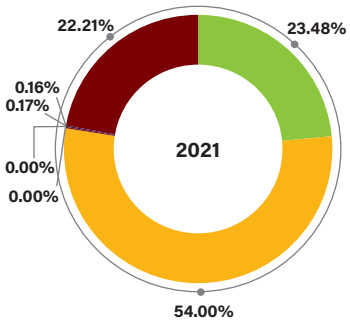
NUMBER OF OPERATIONAL LOSSES BY EVENT



- Internal frauds
- External frauds
- Clients, Products and business practices
- Employment practices and workplace safety
- Damage to physical assets
- Business disruption and system failure
- Execution, delivery and process management

VALUE OF OPERATIONAL LOSSES BY EVENT



- Internal frauds
- External frauds
- Clients, Products and business practices
- Employment practices and workplace safety
- Damage to physical assets
- Business disruption and system failure
- Execution, delivery and process management

Loss event	2021				2020			
	Number	Percentage of total	Value LKR Mn.	Percentage of total value	Number	Percentage of total	Value LKR Mn.	Percentage of total value
Internal frauds	4	1.84	52.64	23.48	1	0.35	0.43	0.06
External frauds	100	46.08	121.07	54.00	181	62.41	735.50	95.50
Employment practice and workplace safety	0	0.00	0	0.00	0	0.00	0	0.00
Client, product, and business practices	0	0.00	0	0.00	1	0.35	23.01	2.99
Damage to physical assets	6	2.76	0.37	0.17	4	1.38	0.51	0.07
Business disruptions and system failures	4	1.84	0.35	0.16	7	2.41	0.23	0.03
Execution, delivery, and process management	103	47.47	49.79	22.21	96	33.10	10.50	1.36
Total	217	100.00	224.22	100.00	290	100.00	770.18	100.00

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Operational risk review

The above chart depicts the comparison of operational losses in the past two years under the Basel II loss event type, both in terms of number of events and value.

The total losses recorded for the year 2021 was LKR 224.22 Mn. The most significant sources of losses (by value) for the year 2021 are external frauds, internal frauds and Execution, delivery and process management. Of which mainly include,

- LKR 122 Mn. of four (4) potential external fraud events which made provision for operational losses during the year. Although provision has been made to these events no such losses have been occurred to the Bank so far.
- LKR 20 Mn. of long outstanding amount written off during the year 2021

Apart from the above, the total Operational losses reported for the year was only LKR 82.22 Mn.

TECHNOLOGY RISK

This is the risk of financial loss, regulatory sanctions, or reputational damage due to breaches of confidentiality, integrity, or lack of information quality and availability. Technology is a key competitive advantage to achieve operational efficiency, speed, cost savings, and accuracy. As a leader in digitalisation, the Bank is inherently exposed to technology risk given its high dependence on information technology. The Bank is exposed to a range of technology related risks including cyber risks such as hacking and theft of information, systems breakdowns and failures, technological obsolescence, technical control towards physical security, and inadequate infrastructure to support business volumes.

The Board IT Committee, Information Security Committee, and Information Security Operations Committee provide oversight to the Bank's Technology Risk Management framework. The committee recommends information Security strategies, policies, and procedures. They also assess the need for system integrations within the Bank and the use of new and advanced information systems.

To ensure the robustness of information systems within the Bank, the Information Security Department and the IT Department regularly monitor key IT risk indicators. Corresponding risk thresholds have been defined to direct management attention for appropriate corrective measures.

IT RISK INDICATORS OF THE BANK

Category	Systems	Actual availability	Availability as a percentage of total working hours and thresholds	
High critical	– Central ATM Switch – NOVUS Switch – Core banking system/ SIBS interface – SWIFT – Credit/Debit card management system – SLIPS	99.91%	>99.9% 97.5%-99.9% <97.5	Green – Low risk Amber – Moderate risk Red – High risk
Medium critical	– Image capturing and presentment system – Web remittance system – Finacle treasury – ATM (individual) – PRIME 4 – CIB/CMB/ORA – RIB/RMB – Express Banking – RLOS	99.53%	>97.5% 95%-97.5% <95%	Green – Low risk Amber – Moderate risk Red – High risk
Low critical	– IHRM System – People's Bank website	100%	>90% 87%-90% <87%	Green – Low risk Amber – Moderate risk Red – High risk

A comprehensive information security strategy is established across the Bank aligning bank vision to mitigate technology risk continuously. The information security strategy strengthen with corporate management and latest technologies to mitigate evolving threat landscape. The controls are selected in line with CIS and NISI controls in addition to baseline security standards. Information security risk mitigations are as follows:

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MITIGATING IT RISK

- Placed all critical, live, and disaster recovery servers in highly secured and certified data centres
- Conducted disaster recovery tests for all critical systems at regular intervals
- Maintaining all IT processes in compliance with the standard ISO/ IEC 27001:2013 certification, the world's highest accreditation for information protection and security, from the International Organisation for Standardisation (ISO)
- Maintaining a well-established IT governance structure to prevent risk of data loss
- Installation of fire protection and smoke detectors at the server rooms and UPS rooms
- Disaster recovery plan to continue operations
- Appointment of Chief Information Security Officer and providing centralised strategic direction to the Bank as per the global best practices.

IT RISK REVIEW

- Conduct routine and non-routine risk assessments for all IT related processes and follow up the same through the Information Security Operations committee
- Periodical review of Bank Information Security Policy Procedures and obtaining board approval
- Reviewing of access logs for critical systems and critical infrastructure
- Reviewing the user access rights of critical systems
- Conduct code reviews for all critical systems, developed in house or out-sourced.
- Conduct internal/ external vulnerability assessments for all systems including web based application and rectification of issues in timely manner.

PEOPLE RISK

People risk is the potential losses that could arise due to inappropriate employee activity, inadequate human resources, and Bank non-compliance with employee related regulations. The Bank has setup comprehensive human resource policies and processes to manage HR related risks, ensure uniformity in employee practices across the Bank, adopt effective recruitment practices, and continuously focus on enhancing employee value propositions.

Turnover of trained skilled staff impacts the competitiveness of the Bank, leading to deterioration in competency and productivity. Hiring qualified, competent individuals and retaining the high performing employees through a rewarding work environment is challenging as well.

People risk review

People are the most significant asset in any business as they are the central point in the overall performance of other assets. Thus, anticipating and efficiently managing people risk is highly important to the success of the Bank in the sustainable Business Model. The Bank has ongoing HR Development programmes that keep staff updated with the necessary knowledge and skills, which help staff enhance customer delivered value whilst minimising business risks incurred due to lack of knowledge, product promotion strategies, etc., thereby increasing Bank reputation and brand image through customers. Further concerns that are involved when managing people risk are reducing disruptions to work, protecting employees and their families from financial difficulties, minimising staff turnover, and maintaining a healthy work environment during the pandemic.

LEGAL RISK

Legal risk is the risk of loss due to non-compliance with applicable regulations leading to the incurring of penalties, fines, loss of reputation, and the potential loss to earnings due to non-enforceability of contracts or documents.

Legal risk is managed by the Bank's Legal Department and proper internal procedures are followed when entering into contracts with clients. The business units are responsible to ensure all legally binding agreements are duly signed by the compliance and legal divisions of the Bank.

REPUTATIONAL RISK

Reputational risk is an indirect loss arising from an event or incident that adversely affects earnings, assets and liabilities, and brand value. Reputational risk is also driven by other risks such as credit, market, operational risk etc.

The negative impact on the Bank's reputation has been low, as People's Bank has maintained an impeccable track record for nearly six decades as a premier State bank in Sri Lanka. Customer confidence is founded on a sound reputation which reflects the integrity of the Bank, the competence of staff, and the high product quality.

The Bank monitors its reputation risk through early warning indicators. The customer complaint-handling unit addresses all customer complaints efficiently and effectively. Even as the scope of reputation risk has widened due to social media, the Bank has implemented several measures to enable customers to forward their grievances. These include the Bank's website, Facebook page, the call centre, email, and the postal address.

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Appropriate measures including communication policies, code of conduct, and ethics are also in place to be followed by all employees across the Bank. The Bank's active engagement in Corporate Social Responsibility (CSR) activities as part of corporate strategy and the media presence on social media platforms help to drive brand visibility.

Reputational risk is assessed through a comprehensive scorecard developed by the Bank based on the ICAAP guidelines.

COMPLIANCE RISK

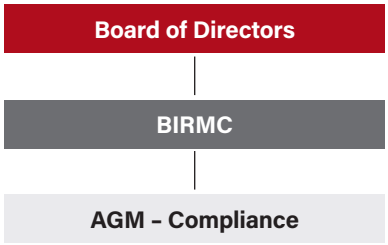
Compliance risk arises due to non-compliance with applicable laws, regulations, Codes of Conduct, and standards of good practice resulting in financial loss and reputational loss. Compliance helps to maintain and enhance the reputation of the Bank.

The Bank has established a compliance function and implemented comprehensive internal policies, procedures, and a sound governance framework to ensure employees comply with the applicable laws, regulations, and best practices.

Objectives of managing compliance risk

- Increase Bank's reputation and brand value
- Enhance customer confidence and trust
- Facilitate smooth and efficient operations
- Strengthen employee integrity
- Offer products and services of the highest quality
- Augment the strength and stability of the Bank
- Strengthen the sustainability of the Bank

Compliance risk governance



The Board holds the highest responsibility to ensure compliance with relevant external regulations and internal guidelines, and is duly supported by the BIRMC and BAC in its compliance functions. The compliance of the Bank is ensured by the dedicated Compliance Unit, reporting directly to the BIRMC. In addition to the Risk Management Department and the internal audit function, the Compliance Unit provides assurance to the Board on the Bank's overall level of compliance.

The Bank's compliance risk is assessed through a five-point rating scale scorecard in relation to internal best practices and external regulations. This scorecard is submitted to the BIRMC.

The dedicated Chief Compliance Officer oversees the compliance status of the Bank through regular assessments and reports the status to the BIRMC.

The duties entrusted to the Compliance Department are twofold, mandatory compliance functions and ancillary compliance functions.

i. Mandatory compliance functions

- Safeguard the Bank from reputational risk by developing compliance policies and procedures to eliminate or minimise the risk of non-compliance with regulatory requirements
- Develop a Code of Conduct/ ethics for all employees, clearly articulating the best practices and monitoring to ensure compliance at all levels
- Implement an Anti-Money Laundering/Terrorist Financing Policy aligned to Know Your Customer (KYC) regulations, to be adhered by all departments of the Bank
- Maintain regular contact and cordial relationships with regulators based on clear and timely communication and mutual understanding
- Nurture a culture of compliance within the Bank
- Keep abreast with relevant legal and regulatory developments and facilitate effective implementation
- Report to the Board all relevant regulatory developments and changes in laws that could give rise to compliance issues
- Highlight any breaches related to compliance and work with the management to address and rectify them within an acceptable timeframe
- Submit weekly, monthly, quarterly and annually compliance reports to the Central Bank of Sri Lanka related to compliance with Central Bank directives and guidelines, and as stipulated by the law
- Prepare and submit compliance reports to the Board Integrated Risk Management Committee (BIRMC) and the Board Audit Committee (BAC) as and when necessary
- Submit monthly compliance reports to the Board
- Establish a Customer Charter based on directions issued by the Central Bank of Sri Lanka

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- Prepare, implement, and monitor the Code of Best Practice on Corporate Governance based on the Central Bank Directive on Corporate Governance for Licensed Commercial Banks
- Establish systems and controls to monitor transactions and report suspicious transactions to the Financial Intelligence Unit to prevent Money Laundering/ Terrorist Financing
- Train staff members on compliance including Anti-Money Laundering and develop an e-learning module to facilitate training across the branch network
- Prepare policies and implement procedures to minimise compliance risk and reputation risk, including developing a Code of Conduct
- Maintain updated credit details of customers by liaising with the Credit Information Bureau

ii. Ancillary compliance functions

- Provide advisory services to management and staff on regulatory, reputational, and ethical matters
- Promote compliance as a success enabler
- Provide input in structuring new products and systems compliant with local regulatory requirements, internal compliance, and ethical standards
- Ascertain compliance with internal and external regulations by conducting assessments and reviews at regular intervals
- Represent the compliance function in relevant internal and external committees
- Clearly communicate policies on compliance to management and staff
- Liaise with the Bank's internal and external audit function to address compliance issues
- Follow up on compliance issues identified through audits
- Liaise with the auditors and conduct random compliance audits on risk-based assessment

Compliance reporting

The Compliance Department submits monthly compliance reports to the Board. These reports include sign offs from the Heads of Departments and branches on statutory and mandatory requirements, events of non-compliance, and employee training and branch assessments. Reports are also submitted to the BIRMC and BAC on any special compliance-related matters within that quarter.

Prevention of Money Laundering and Terrorist Financing

Money laundering and terrorist financing continues to receive significant attention as nations attempt to deal with the harmful legal, economic, and social consequences of criminal activities. People's Bank has taken every effort to prevent the rising prevalence of money laundering and terrorist financing by having stringent policies, procedures, and control standards relating to client identification. This is coupled with due diligence, transaction monitoring, payment and name screening, investigating and reporting of suspicious activity, and an evaluation of all new products and services to prevent and/or detect activities that may pose risk to the Bank. All employees are trained through structured programmes and e-learning modules on areas such as anti-money laundering, Know Your Customer, and customer due diligence. Unusually large and suspicious transactions are analysed, evaluated, and reported to the Financial Intelligence Unit.

Compliance risk review

Branch assessments are conducted by the Regional Compliance Officers on a risk-based approach and reviews are conducted on selected branches by the Compliance Department. Head office departments and other related units are assessed by the Compliance Department selecting the Departments/Units on a risk-based approach. Also , subsidiaries which carry out financial transactions are reviewed quarterly through a questionnaire in addition to the visits conducted by the compliance department once in every two years.

Strategic risk

Strategic risk is the potential loss to earnings and viability arising due to adverse business decisions, improper implementation of decisions, a challenging business environment, and inadequate response to changes in the operating environment.

Strategic risks are managed through the Bank's strategic plan approved by the Board and Executive Management. The strategic plan is formulated following extensive stakeholder engagement at multiple levels and discussions with business units. In the event a risk materialises, a series of management actions are developed to prevent or mitigate the impact on Bank earnings. The business performance is tracked on a weekly basis by ALCO and the Board. The actual performance is assessed against the budgeted targets for each business unit. If needed, the strategies are revised to suit any changes in the business environment.

Strategic risk is assessed using a scorecard, by taking into consideration a range of factors including the Bank's size, complexity, sophistication of operations, environmental analysis as well as customer profiling. The scorecard helps to identify areas the need improvements to mitigate strategic risk.

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Group risk management

The Bank's main subsidiaries, People's Leasing & Finance Company PLC, and People's Insurance PLC have structured risk management frameworks to identify, assess, and monitor their risk exposures. People's Bank provides oversight to the risk management aspects of the Group entities through the following structures and mechanisms:

- The Group's risk appetite and strategy is formulated at Bank level
- Reporting structures, processes, and thresholds are determined by the Bank's Board of Directors
- Defined key risk indicators, trigger levels, and thresholds have been established for each group entity in which the Bank's exposure exceeds LKR 500 Mn.
- Through periodic reviews, the People's Bank's Audit Committee and Internal Audit Department ensures the adequacy of internal control mechanisms of the subsidiaries
- In certain instances, Directors are nominated to the respective Boards of the subsidiaries by People's Bank
- Periodically, the risk profiles of the regulated subsidiaries are reviewed by People's Bank's BIRMC
- The Bank's Board of Directors have access to the board minutes of Group companies.

The Group's risk ratings for key categories of risk in 2021

	Credit Risk	Market Risk	Operational risk	Compliance risk	Strategic risk	Reputation risk
People's Bank	Low	Low	Low	Low	Low	Low
People's Leasing & Finance	Moderate	Low	Low	Low	Moderate	Low
People's Insurance	Low	Low	Low	Low	Moderate	Low

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DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING / 211

AUDITOR GENERAL'S ASSURANCE REPORT ON INTERNAL CONTROLS / 213

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The Bank is led by a formidable team of leaders who are focused on ensuring excellence is achieved on all fronts.

CORPORATE GOVERNANCE

GRI 102-18, 102-22, 102-23

Compared to challenges faced by the banking sector in the year 2020, year 2021 was at a different level. Operationally, it continued to test our commitment, our discipline, our resolve, our strength and, importantly, our technological capabilities. If anything, the pandemic has accelerated the trend of integrating environmental, social and governance (ESG) factors into decision making by fetching into focus both the role of business in confronting broader societal concerns and the need for strong corporate governance.

The Board continued to ascertain and respond to COVID-19 implications while emphasis on employees' safety and wellbeing, supporting customers and fully committed to the Government economic revival plan to up bring the Country. The Board also ensured greater accountability, transparency, good governance, and sound financial and risk management to all its stakeholders in order to maintain sustainable operations.

The Bank's Corporate Governance Framework defines the roles, responsibilities, practices, and processes used to govern and manage the Bank. By providing clear and effective identification and delineation of powers and decision-making bodies, this Framework has enabled the Bank to thrive, remain sustainable, and operate with integrity and accountability towards its stakeholders.

GOVERNANCE STRUCTURE

Code of Conduct

Board Charter

Policy Framework

Regulatory Requirements

- People's Bank Act No. 29 of 1961 and any amendments
- Banking Act No. 38 of 1988 and any amendments
- CBSL Directives
- Exchange Control Act No. 23 of 1953
- Financial Transactions Reporting Act No. 6 of 2006
- Prevention of Money Laundering Act No. 5 of 2006

Voluntary Undertakings

- Code of Best Practice on Corporate Governance
- GRI Standards
- UN Sustainability Development Goals (SDGs)
- Integrated reporting framework issued by the International Integrating Reporting Council (IIRC)

Assurance

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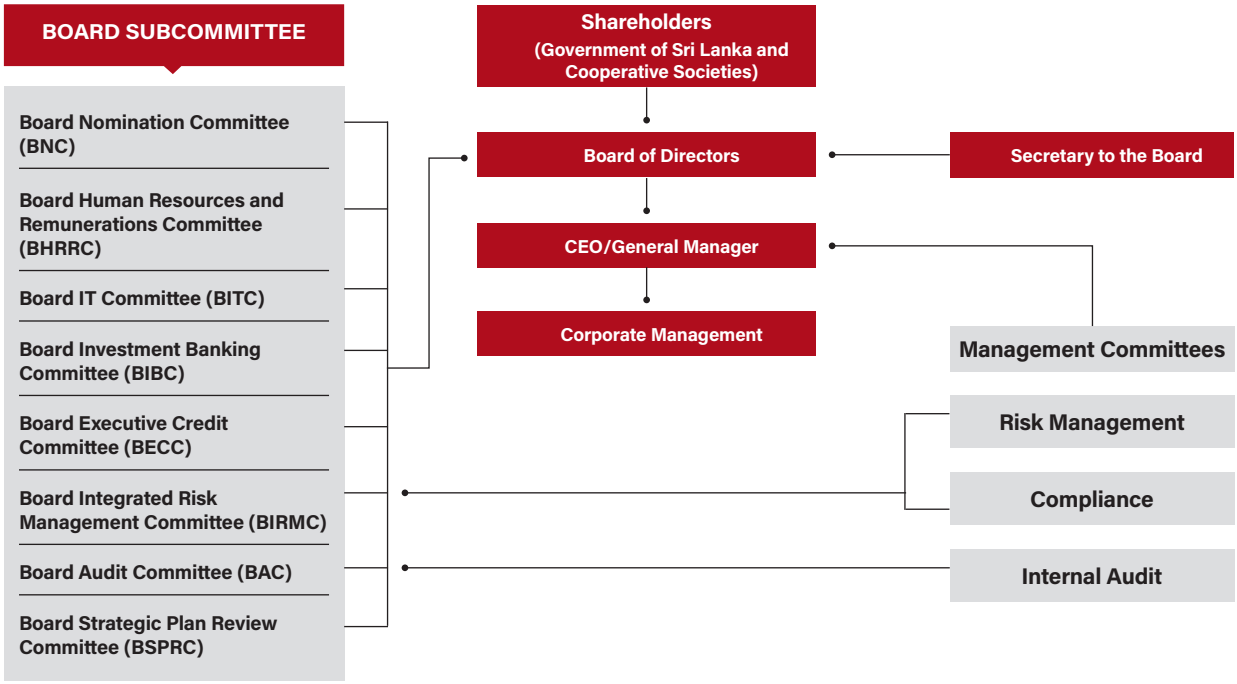
PEOPLE'S BANK CORPORATE GOVERNANCE FRAMEWORK



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GOVERNANCE FRAMEWORK

The Bank's corporate governance structure consists of two primary layers. The Board provides oversight and deliberates with the Executive Management about the Bank's strategic direction, financial goals, resource allocation, and risk appetite. The Management is responsible for executing the policies of the Board to create shared value for all the Bank's stakeholders.

KEY FOCUS FOR 2021:

- Developing of a Strategic Plan for 2022–2024
- Expansion of digital banking facilities
- Focus on customer service with COVID–19 challenges and maintain high level of customer service quality
- Continuing providing financial and non-financial assistance to support the Government economic revival initiatives

ASSURANCE

The Auditor General provides assurance on the Financial Statement of the Bank and on the Directors' Statement on Internal Controls over Financial Reporting which are published on pages 217 to 218 and 213 respectively. He also certifies the level of compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

GRI 102-22, 102-23, 102-24

COMPLIANCE WITH THE CODE OF BEST PRACTICE FOR CORPORATE GOVERNANCE THE BOARD

(Principle A.1)

Board of Directors of People's Bank are appointed by the Minister of Finance. The current Board comprises the Chairman, and Non-Executive Directors. All Directors are eminent professionals of the State and private sector. The Chairman, is a well experienced professional with over 30 years experience especially in the finance field. The diverse range of skills and experience of the Non-Executive Directors enrich the Bank's risk management and control process. Profiles of the Directors are given on pages 32 to 33.

GRI 102-33

Holding of regular Board meetings (Principle A. 1.1)

The Board meets at least once a month and additional meetings are convened based on necessity. The Board met 14 times during the year 2021, and all Board meetings were characterised by high attendance, active participation and constructive and open discussions.

Directors are required to attend all Board meetings and Committee meetings of which they are members. Instances of non-attendance at Board meetings were generally due to prior engagements, personal commitments or illness.

In addition, Non-Board members of the Senior Management and the advisory members may, by invitation, attend meetings to address specific items in the agenda. Members of the Corporate Management and/or external experts are allowed to make presentations to the Board and subcommittees on a regular basis on matters pertaining to the Bank's strategy.

The attendance of each Director at Board meetings and respective committee meetings in 2021 are detailed below:

Name of Director	Status	Board meeting	BAC	BHRRC	BIRMC	BECC	BNC	BIBC	BITC	BSPRC
Mr Sujeewa Rajapakse	Independent Non-Executive	14/14		6/6			21/21			4/4
Mr Kumar Gunawardana	Independent Non-Executive	14/14		5/6		24/24		3/3	3/3	
Mr Sudarshan Ahangama	Independent Non-Executive	13/14	7/7		4/4		20/21		2/3	4/4
Mr Isuru Balapatabendi	Independent Non-Executive	12/14			4/4			3/3		3/4
Mr Malindu Ranasinghe**	Independent Non-Executive	01/14		1/6			0/21		0/3	
Mr Keerthi Goonatillake	Independent Non-Executive	14/14	6/7			21/24			3/3	2/4
Mr Manjula Wellalage	Independent Non-Executive	13/14		5/6		20/24				
Mr K A Vimalenthirarajah	Non-Independent Non-Executive	13/14	5/7		4/4			3/3		
Ms Bhadranie Jayawardhana	Non-Independent Non-Executive	14/14					18/21			

*** Resignation of Mr Malindu Ranasinghe - 07 March 2021*

Role of the Board (Principle A. 1.2)

The Board is responsible to provide leadership, oversight, control, development, and ensure long-term success of the Bank. They also facilitate value creation to shareholders in accordance with applicable laws and regulations. The Board is also responsible for nurturing the right culture, instilling values and promoting ethical behaviour throughout the Bank.

There is a formal schedule of matters reserved for the Board, which are reviewed regularly to ensure it remains current. Matters reserved for the Board include the items summarised in the table below:

The Board has delegated some of its responsibilities to committees of the Board. The scope of work assigned to each committee along with the progress made during the year is given on pages 207 to 210 of this Report.

Monitoring the effectiveness of the Bank's risk management and internal control systems has been delegated to the Board Integrated Risk Management Committee and Board Audit Committee. The Board retains ultimate responsibility for determining the Bank's "risk tolerance". The Risk Management Report is reviewed by the Board, and this includes, monitoring, controlling and reporting of identified risks, and uncertainties. In addition, the Board reviews reports referred by the Chairman of the Risk Committee and Audit Committee pertaining to risk management.

Governance	Strategy and directions	Risk management accountability and control
Review of governance arrangements Terms of reference for and membership of Board committees	Approval of strategy and annual budgets Authorisation of acquisition and disposal activity Affirmation of risk management strategies and risk appetite	Approval of financial statements, other updates to market and recommendations on dividends Approval of authority levels, financial, and treasury policies Review of internal control and risk management Approval of health and safety policies

Compliance with laws of the country as applicable to the business and procedure to obtain independent professional advice (Principle A. 1.3)

The Board of Directors collectively and severally, are expected to act in accordance with the laws of the country, applicable to the business conducted by the Bank. Therefore, the Board is responsible for ensuring all relevant procedures and controls are in place to maintain compliance with all applicable laws and regulations.

The Board acknowledges the need to obtain independent judgement from time to time, on certain matters. Accordingly, Board members are entitled to seek independent professional advice (including but not limited to legal, accounting, and financial advice) at the Bank's expense on any matter connected with the discharge of his/her duties and responsibilities.

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Company Secretary (Principle A. 1.4)

All Directors have access to the Board Secretary. The Board Secretary is responsible to the Board for ensuring all agreed procedures and applicable rules and regulations are observed. In addition, the Board Secretary serves as the Secretary to all Board subcommittees and maintains the minutes of all Board meetings and committee meetings. Other responsibilities of the Board Secretary include:

- Coordinating matters pertaining to the conduct of Board meetings and subcommittee meetings
- Conducting proceedings in accordance with the People's Bank Act and relevant legislation
- Facilitating adoption of best practice on corporate governance including assisting the Directors with respect to their duties and responsibilities, in compliance with relevant legislation and best practice
- Acting as the communication liaison between Non-Executive Directors and Management
- Ensuring appropriate disclosures on related parties and related party transactions in line with regulatory requirements
- Obtaining legal advice in consultation with the Board on the People's Bank Act and other relevant legislations in ensuring Bank's compliance with all applicable laws and regulations

Independent judgement of Directors (Principle A. 1.5)

Directors are required to bring an independent judgement to bear on decisions of the Bank. As experienced professionals, their duties are performed without any influence from other persons. The Board promotes dynamic, and constructive contribution from Non-Executive Directors.

Dedication of adequate time and effort by the Directors (Principle A. 1.6)

Directors are expected to dedicate sufficient time before a meeting to review Board papers and call for additional information and clarification and to follow-up on issues.

Directors are also expected to ensure sufficient time is dedicated at every meeting to ensure all responsibilities are discharged satisfactorily.

Training for Directors (Principle A. 1.7)

All Directors are entitled to receive relevant training for continuous development. To ensure Directors' contribution to the Board/committees remains relevant, ongoing trainings and updates are provided for Directors to regularly refresh their knowledge, skills and understanding of the business, and markets in which the Bank operates. This includes written reports and presentations by senior executives or consultants, on Bank's operations, corporate governance, legal and regulatory developments.

CHAIRMAN AND CEO (Principle A. 2)

Whilst the Chairman and Chief Executive Officer (CEO)/General Manager (GM) are collectively responsible for the leadership of People's Bank and for promoting the highest standards of integrity and probity, there is a clear and effective division of accountability and responsibility between the Chairman and the CEO/GM. Each play a distinctive role which complements each other to ensure balance of power and authority and avoid unfettered powers of decision and control for one individual.

The Chairman is responsible for leading, directing and managing the Board to ensure effective operations and fully discharging its legal and regulatory responsibilities. The primary role of CEO/GM is to manage the day to day operations of the Bank.

A decision to combine the posts of Chairman and Chief Executive Officer in one person should be justified and highlighted (Principle A. 2.1)

The position of the Chairman and the CEO/GM are clearly separated, preventing unfettered powers for decision-making by one person.

The Chairman and the CEO/GM have been identified on pages 32 and 36 of the Annual Report.

GRI 102-23

CHAIRMAN'S ROLE (Principle A. 3)

The Chairman is responsible for ensuring the CEO/GM and the Management effectively implement the strategies and policies agreed by the Board. The Chairman also provides stewardship for the adoption good governance practices and provides oversight to ensure effective communication with shareholders and other stakeholders.

Conducting Board proceedings in a proper manner (Principle A. 3.1)

The Chairman is responsible not only for providing leadership but also for overseeing the functioning of the Board to safeguard the best interest of the Bank and its shareholders. Accordingly, the Chairman is responsible for:

- Ensuring Board meetings are planned and conducted effectively
- Setting the agenda for each Board meeting, taking cognisance of the matters proposed by other Directors, members of various subcommittees or the Board Secretary

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- Ensuring the Board members receive accurate, timely, and clear information
- Ensuring minutes of Board meetings are accurately recorded and circulated among the Directors
- Providing leadership and governance to the Board to create a conducive environment for the Board and individual Director's to discuss issues in a timely manner
- Promoting a culture of transparency and encouraging Non-Executive Directors to engage in constructive and healthy exchange of views pertaining to matters of the Board and thereby facilitating contribution to the effective functioning of the Board
- Ensuring the Board plays a full and constructive role in developing and assessing Group's strategies and policies, and ensuring Board decisions are taken in the best interest of the Bank and fairly reflect Board's consensus
- Proving leadership for self-assessment to generate meaningful feedback to further improve the effectiveness of the Board

FINANCIAL ACUMEN (Principle A. 4)

The People's Bank Board comprises members with sufficient financial acumen and knowledge. In addition to the Senior Chartered Accountants and Chartered Management Accountants who provide guidance on the financial matters, the rest of the Directors have sufficient financial acumen acquired through their extensive professional experience.

BOARD BALANCE (Principle A. 5)

The People's Bank Board is well balanced with eight Non-Executive Directors, of whom six function in an independent capacity. This is above the minimum stipulated by Code of Best Practice for Corporate Governance issued jointly by the Securities Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka.

All Independent Non-Executive Directors are independent of management and free from any business or other affiliations that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

Every Non-Executive Director submits a signed declaration of independence/non-independence against the specified criteria and they are evaluated to ensure compliance with the criteria for determining independence.

In the year under review, there were no circumstances that warranted the appointment of Alternate Directors. The need to appoint a Senior Independent Director did not arise either due to the segregation of positions of the Chairman and the CEO/GM.

SUPPLY OF INFORMATION (Principle A. 6)

Board meetings are scheduled well in advance, giving adequate notice to Directors. Prior to every Board or committee meeting, the Board Secretary ensures all relevant papers including the agenda, content and a summary of management presentations are made available to all the Directors seven working days prior to the meeting. The Directors who are unable to attend the meetings are updated through the documented minutes, which are tabled at the next meeting with the matters to be followed-up from the minutes.

Monthly accounts for a given month are prepared and circulated among Directors in the following month along with key financial performance indicators of each division/subsidiary. If the Board feels the information provided is insufficient or not clear, they are entitled to request for further clarification or additional information. The respective management personnel can be called for the meetings when deemed necessary to provide further details.

GRI 102-24

Appointments to the Board (Principle A. 7 and A. 8)

In accordance with the People's Bank Act, a maximum of 10 Directors are appointed by the Minister in charge of the portfolio of which two Directors are nominees of the respective Minister handling the subject of cooperatives. Appointments are made for a period of three years subject to a maximum term of nine years and an age limit of up to 70 years, whichever comes first in line with the provisions of the Banking Act Direction No. 11 of 2007.

All appointments for directorships are submitted to the Central Bank of Sri Lanka for assessment under the Fit and Proper Criteria for Directors.

APPRAISAL OF BOARD PERFORMANCE (Principle A. 9)

Every member of the Board conducts a self-assessment of his/her own effectiveness as well as the Board as a team annually, incorporating all criteria specified in the Board performance evaluation checklist of the Code. The responses are collated by the Board Secretary and submitted to the Board as a summary report.

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DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS (Principle A. 10)

Information specified in the Code in relation to Directors is disclosed in this Annual Report as follows:

- Name, qualifications, brief profile, and the nature of expertise on pages 32 and 33.
- Number of Board and Committee meetings held in year 2021 and attendance on page 187.
- Names of committees in which the Director serves as the Chairman or a member on page 186.
- Related party transactions on pages 312 to 317.

APPRAISAL OF THE CEO (Principle A. 11)

The evaluation of the CEO/GM is one of the most important responsibilities of the Board. The evaluation process provides a formal opportunity for the Board and CEO/GM to have a constructive discussion regarding the performance and the leadership of the CEO/GM. The set of KPIs for the CEO/GM formulated under Strategic Planning and Performance Management is reviewed quarterly by the panel who submits the review to the Board monthly for their review. These goals are confirmed by the Board and are used as the basis for the annual CEO/GM's appraisal process.

The CEO/GM is responsible to provide the Board with explanations for any adverse variances along with corrective action to be taken.

Directors' and executive remuneration procedure (Principle B. 1. B.1.1, B. 1.2, B. 1.3)

Board remuneration is decided according to guidelines set by the Ministry of Finance. No Director is involved in determining his/her own remuneration. The BHRRC makes recommendations to the Board pertaining to the remuneration and benefits of the CEO/GM and Key Management Personnel within agreed terms of reference and in accordance with the remuneration policies of the Bank, and the Collective Agreement. Remuneration is designed to attract, retain and motivate high performing, qualified and experienced employees of the Bank. The Board in turn makes recommendations to the Minister of Finance who is the final authority for approval of their remuneration under the collective agreement.

The BHRRC seeks professional advice externally, when deemed necessary, in discharging their responsibilities. The report of the BHRRC, disclosing the Statement of Remuneration Policy and the names of the Chairman and members of the BHRRC is given on page 207. The aggregate remuneration paid to the Directors is given on page 205.

Relations with shareholders (Principle C. 1, C. 2)

As a State Bank, with the Government of Sri Lanka being the main shareholder, People's Bank comes directly under the purview of the Ministry of Finance. The Board liaises with the Ministry to ensure alignment with the socio-economic development goals of the country.

The Annual Report is printed in English, Sinhala, and Tamil and is circulated through the Ministry of Finance to the Parliament. The Bank liaises with the Ministry of Finance for matters concerning the Ministry.

Major and material transactions (Principle C. 3)

There were no transactions which would materially alter the Bank's or Group's net asset base, other than those disclosed in the Note 45 to the Financial Statements, Related Party Disclosures on pages 312 to 317.

Financial reporting (Principle D. 1)

The Annual Report presents a balanced review of the Bank's financial position, performance, and prospects. Both narrative and visual elements have been used in presenting the information, to increase comprehension and clarity. We have provided a balanced view on our performance in this report and other communications presented to relevant authorities including the Ministry of Finance and regulators. The Bank takes every effort to ensure compliance with statutory requirement in the Annual Report and in the issue of interim communications on financial performance.

The following disclosures as required by the Code are included in this Report:

- Statement of Directors' Responsibility on page 216 includes a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements
- Independent Auditors Report on pages 217 to 218 includes a statement of their responsibilities
- Directors' Statement on Internal Control over Financial Reporting on pages 211 to 212.
- Management Commentary on pages 44 to 151.
- Statement of going concern of the Company is set out in the Statement of Directors' Responsibility on page 216.
- Related Party Transactions are disclosed on pages 312 to 317 of the Directors' Report and in Note 45 in the Financial Statements

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Internal control and Audit Committee (Principle D. 2 and D. 3)

The Board is cognisant of its responsibility for formulating and implementing appropriate and adequate processes for risk management and sound internal control systems to safeguard shareholder interests and assets of the Bank. BAC assists the Board in relation to risk managements while BIRMC assists the Board in discharge of its duties with regard to risk management. Their roles and responsibilities are provided in the Committee Reports given on pages 207 and 210, respectively.

BIRMC is supported by the Risk Management Department of the Bank. A comprehensive report on Bank's risk management process is included on pages 153 to 180. BAC is supported by the internal audit function of the Bank. The Internal Audit Department reviews the adequacy and effectiveness of the internal control systems and reports to the BAC on a regular basis. Duties of the BAC include keeping under review the scope and results of such audits and its effectiveness. BAC also plays a primary role in liaising with the Auditor General, who conducts the external audit of the Bank.

Code of Business Conduct and Ethics and Corporate Governance Report (Principle D. 4 and D. 5)

The Bank has two Codes of Business Conduct and Ethics, one applicable to the Directors and the other to the employees. BHRRC is responsible to regularly review the respective codes to ensure they remain relevant and adequate considering the evolving business operations of the Bank. The Codes of Business Conduct and Ethics are in compliance with the requirements of the Schedule I of the Code of Best Practice on Corporate Governance.

This Corporate Governance Report from pages 185 to 206 complies with the requirement to disclose the extent of compliance with the Code of Best Practice on Corporate Governance as specified in Principle D 5.

Shareholder relations (Principle E and F)

The relevant provisions of the Code are not applicable, because the main shareholder of People's Bank is the Government of Sri Lanka.

GRI 102-18, 102-19, 102-32

Sustainability report (Principle G)

The Board approved a Sustainability Policy for the Bank and has set in place a governance structure to ensure its philosophy, objectives, and strategic goals for social and environmental development are implemented. Accordingly, triple bottom line values have been embedded throughout the Bank's operations in all geographic areas. The sustainable business initiatives of the Bank are described in line with the Principles of the Code, as follows:

Principle 1	–	Economic Sustainability – Financial Capital on pages 72 to 77.
Principle 2	–	Environment – Natural Capital on pages 131 to 137.
Principle 3	–	Labour Practices – Human Capital on pages 91 to 106.
Principle 4	–	Society – Social and Relationship Capital on pages 107 to 130.
Principle 5	–	Product Responsibility – Social and Relationship Capital: Customer on pages 107 to 115.
Principle 6	–	Stakeholder identification, engagement and effective communication, Stakeholder Engagement on pages 52 to 54.
Principle 7	–	Sustainable reporting to be formalised as part of the reporting process and to take place regularly – About this Report on pages 2 to 3.

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The Banking Act Direction No. 11 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank

Section	Principle	Compliance and implementation	Complied
3. (1)	**Responsibilities of the Board**		
	The Board has strengthened the safety and the soundness of the Bank in the following manner:		
a.	Setting strategic objectives and corporate values	Board approved Strategic Plan for 2021 in place. The strategic Plan for 2022-2024 has not approved by the board as yet. Bank's strategic objectives have been communicated to the Business Unit Heads. Budget 2021 has been presented by the Head of Finance(HOF). HOF has explained the Bank's 2021 Budget together with three scenarios.	Complied with
b.	Approval of overall Business Strategy including Risk Policy and Management	Strategic Plan includes strategic objectives and overall business strategy of the Bank. The Bank is in the process of developing Strategic Plan 2022-2024 through an external consultant.	
c.	Risk management	Board Integrated Risk Management Committee (BIRMC) takes the initiative in assessing of all risks of the Bank with the assistance of the Credit Risk Officers(CROs) and the relevant KMPs. Also BIRMC discusses new strategies of the Bank, the risks arising out of new strategies and further the ways and means to mitigate such risks.	Complied with
d.	Communication with all stakeholders	The Board has approved and implemented an effective Cooperate Communication Policy with all stakeholders. The Board has reviewed Communication Policy at their meeting.	Complied with
e.	Internal Control System and Management Information Systems	Internal controls related to 24 significant processes including the MIS functions has been reviewed and the approvals of the relevant Department/Unit Heads had been obtained. The relevant document has already been submitted for the approval of BAC.	Complied with
f.	Key Management Personnel (KMPs)	Board has defined and designated the following categories as KMPs CEO, SDGMs, DGMs, AGMs, CRO/DGM (RM), HOF, CIA, Compliance Officer, Head of Treasury, Head of Legal, Head of IT and Board Secretary as defined in Banking Act Determination No. 1 of 2019 and any other officer falling under the definition of section 3(1) (i) (f) of the banking act direction No. 11 0f 2007.	Complied with
g.	Define areas of authority and key responsibilities for Directors and KMP	There is a clear segregation of authority and responsibilities between the Directors and the KMPs. Board members are responsible for taking strategic decisions of the Bank. KMPs are responsible for carrying out the decisions made by the Board and for operations. Further, People's Bank Act defines the areas of authority and Key responsibilities for the Board of Directors including the CEO. Key responsibilities of the KMPs are entirely operational based and are specified in their respective job descriptions. Authority of key management personnel are defined under delegation authority limits.	Complied with
h.	Oversight of affairs of the Bank by KMP	Board has exercised appropriate oversight of the affairs of the Bank through Key Management Personnel.	Complied with
i.	Assess effectiveness of own governance practices		

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Section	Principle	Compliance and implementation	Complied
	(i) The selection, nomination, and election of Directors and Key Management Personnel;	In terms of the section 8 of the People's Bank Act the appointment of directors are being made by the Minister-in Charge	Complied with
	(ii) The management of conflicts of interests; and	The Conflicts of Interests have been duly recorded in minutes.	Complied with
	(iii) The determination of weaknesses and implementation of changes where necessary.	N/A	Complied with
j.	Succession plan for KMP	Board approved Succession Plan for CEO and KMPs are in place.	Complied with
k.	Regular meetings with KMP	Key Management Personnel are called regularly by the Board when a need arises to explain matters relating to their area of functions.	Complied with
l.	Regulatory environment and maintaining an effective relationship with regulator	Board has taken measures and processes to understand the regulatory environment and also the Bank maintains a relationship with regulators. On appointment as Directors, the Board Secretary furnishes them with Code of Best Practice on Corporate Governance, details of existing Directors etc. CBSL Statutory Examination Report has been submitted to the Board and the Board has reviewed the actions taken in addressing the statutory concerns raised by CBSL. Attendance of the CEO at CBSL meetings further evidence the relationship maintained with the regulator.	Complied with
m.	Hiring External Auditors	As per Section 34 of People's Bank Act, the Auditor General is the auditor of the Bank.	Complied with
3.1 (ii)	Appointment of Chairman and CEO and defining and approving their functions and responsibilities	As per Section 10 of People's Bank Act, Minister appoints the Chairman of the Board from among the members of the Board. Mr Sujeewa Rajapakse, has been appointed as Chairman and Independent, Non- Executive Director by Minister of Finance, Economy and Policy Development w.e.f. 26 December 2019. Mr Ranjith Kodituwakku has been appointed as the new CEO/GM w.e.f. 26 June 2020. Section 2.22 and 2.23 of Code of Best Practice in Corporate Governance of the Bank defines the Powers and Roles of the Chairman. Code of Best Practice in Corporate Governance (CBPCG) Section 3.9 Annex III of the Bank defines the Roles, Duties and Responsibilities of the CEO/GM.	Complied with
3.1 (iii)	Regular Board meetings	Bank has held 14 meetings during the year 2021. There were 47 circular resolutions passed during the year 2021.	Complied with
3.1 (iv)	Arrangements for Directors to include proposals in the agenda	As a practice, Directors include matters and proposals in the agenda for regular meetings. Board approved procedure is in place to enable all Directors to include matters and proposals in the agenda for regular board meetings.	Complied with

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Section	Principle	Compliance and implementation	Complied
3.1 (v)	Notice of meetings	Duties of the Secretary to the Board (Annex iv) given in the Code of Best Practice in Corporate Governance includes a provision that preparing the calendar of regular Board meetings for each year is the duty of the Board Secretary with the approval from the Board. Board meeting Calendar for, 2022 has been approved at Board Meeting held on 30 November 2021. Further as a practice, notice of at least 7 days is given for the board to provide all Directors an opportunity to attend regular meetings.	Complied with
3.1 (vi)	Directors attendance	As per the Board Attendance schedule submitted by the Board Secretary, all Directors have attended two-thirds of the meetings held during the year 2021. Under the prevailing pandemic situation some Directors have attended online.	Complied with
3.1 (vii)	Appointment and setting responsibilities of the Board Secretary	Board Secretary is an Attorney at Law who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and section 2.5.i of Board approved SOR. The Board has appointed Ms. Shyama Wijekoon, Assistant Board Secretary as an Acting Secretary to the Board of Directors w.e.f 1 April 2019.	Complied with
3.1 (viii)	Directors access to advice and services of Board Secretary	Section 2.25 of the Code of Best Practice in Corporate Governance has a provision in this regard.	Complied with
3.1 (ix)	Maintenance of Board minutes	Duties of the Secretary to the Board (annex iv) given in the Code of Best Practice in Corporate Governance (version 1.2) approved by the Board includes a provision in this regard.	Complied with
3.1 (x)	Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities	Detailed minutes are kept covering the given criteria and the board minutes evidence that they contain the required details such as individual views of the members, ultimate decision of the Board, whether complies with strategies and policies of the Bank etc. Further reports and information used by the board members in arriving at the decisions are mentioned.	Complied with
3.1 (xi)	Directors ability to seek independent professional advice	Board approved policy is in place to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Complied with
3.1 (xii)	Dealing with conflicts of interest GRI 102-25	People's Bank Act No. 29 of 1961 Section 11 speaks on the conflicts of interest of the Board of Directors. This procedure further evidence that a Director is to abstain 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 and he/she has not been counted in the quorum. Section 2.13 of Code of Best Practice of the Bank approved by the Board also has a provision in this regard. The Board has discussed about the Related party Transaction Policy at their meeting held on 19 March 2018. As an example, The Chairman has excused from the Board Meeting when discussing the BDO partners POD Facilities.	Complied with
3.1 (xiii)	Formal schedule of matters reserved for Board decision	Section 2.28 of Board Charter included in Code of Best Practice of the Bank approved by the Board defines the Powers Reserved for the Board.	Complied with

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Section	Principle	Compliance and implementation	Complied
3.1 (xiv)	Inform Central Bank if there are solvency issues	There is a procedure in place at the Bank for informing 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. As per the board minutes such an instance has not arisen in 2021.	Complied with
3.1 (xv)	Capital adequacy	Board has capitalised the Bank at levels required by the Monetary Board. This has been addressed through the Monthly Compliance Certificate submitted by the Compliance Officer.	Complied with
3.1 (xvi)	Publish Corporate Governance Report in Annual Report	The Board has published its Corporate Governance Report on compliance with section 3 of this direction has been published on pages 192 to 206 of the Annual Report 2021.	Complied with
3.1 (xvii)	Self-assessment of Directors	The Bank has a scheme of self-evaluation of Directors in place and the Board Secretary annually obtains the evaluation forms from all the Directors.	Complied with
3.(2)	**The Boards composition**		
3.(2) (i)	Number of Directors	The Board is comprised of not less than seven (7) directors during the year 2021. The names of directors who have held directorships up to 31 December 2021 are as follows. Mr Sujeewa Rajapakse Mr Kumar Gunawardana Mr Sudarshan Ahangama Mr Isuru Balapatabendi Mr Keerthi Goonatillake Mr Manjula Wellalage Mr K A Vimalenthirarajah Ms Bhadranie Jayawardhana	Complied with
3.(2) (ii) (a) and (b)	Period of service of a Director	None of the Directors have exceeded the service of nine years. All Directors have been appointed during the period 2019 by the Minister in charge of the subject.	Complied with
3.(2) (iii)	Board balance	There are no Executive Directors on the People's Bank Board.	Complied with
3.(2) (iv)	Independent Non-Executive Directors	The Board comprised of adequate number of independent non-executive Directors on the board to comply with the direction during the current year.	Complied with
3.(2) (v)	Alternate Independent Directors	There are no provisions in the People's Bank Act to appoint Alternate Direc-tors and as such, such a situation does not arise.	Complied with
3.(2) (vi)	Criteria for Non-Executive Directors	The appointments to the board are made by the Minister in Charge of the Finance, under Section 8 of the People's Bank Act No. 29 of 1961.	Complied with
3.(2) (vii)	More than half the quorum to comprise Non-Executive Directors	All Directors of the Bank are non- executive and as per section 2.3 of Code of Best Practice of the Bank the stipulated quorum of the board is five. As per the Attendance submitted by the Board Secretary for the financial year 2021 the required quorum has been complied with at all Board meetings.	Complied with

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Section	Principle	Compliance and implementation	Complied
3.(2) (viii)	Identify Independent Non-Executive Directors in communications and disclose categories of Directors in Annual Report	Composition of the Board, including the names of Chairman, Non-Executive Directors, and Independent Directors have been disclosed in the Annual Report 2021 on page 187.	Complied with
3.(2) (ix)	Formal and transparent procedure for appointments to the Board	The appointments to the Board are made by the Minister of Finance, Economy and Policy Development, under Section 8 of the People's Bank Act No. 29 of 1961.	Complied with
3.(2) (x)	Re-election of Directors filling casual vacancies	Such a situation does not arise since the Minister in Charge of the subject appoints them.	Complied with
3.(2) (xi)	Communication of reasons for removal or resignation of Director	Section 8 (4) of People's Bank Act, provides provisions for a Director to re-sign by writing a letter to the Minister of the subject. Further the Minister can also remove a Director by publishing a Gazette notification. Directors' resignation and the reason for such resignation are duly informed to Central Bank of Sri Lanka (CBSL).	Complied with
3.(2) (xii)	Prohibition of Directors or employees of a Bank becoming a Director at another bank	Annual declarations have been obtained from the directors. Further, updates on the related party transactions of the directors have been circulated on quarterly basis.	Complied with
3.(3)	**Criteria to assess fitness and propriety of Directors**		
3.(3) (i)	Age of Director should not exceed 70 years The transitional provisions	Provisions available under section 2.1 of Code of Best Practices. None of the persons who serve as Directors have not exceeded 70 years during the year 2021.	Complied with
3.(3) (ii)	Directors should not be Directors of more than 20 companies and not more than 10 companies classified as specified business entities	As per the affidivit none of the Directors hold directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank during the year.	Complied with
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	As per the confirmation submitted by the Board Secretary, Directors or CEO have not been appointed from another bank during the year 2021.	Complied with
3.(4)	**Management functions delegated by the Board**		
3.(4) (i)	Understand and study delegation arrangements	The Board is empowered by Section 32 of the People's Bank Act to delegate its powers to any officer of the Bank and may revoke either wholly or in part as the case may be.	Complied with
3.(4) (ii)	Extent of delegation should not hinder Board ability to discharge its functions		Complied with

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Section	Principle	Compliance and implementation	Complied
3.(4) (iii)	Review delegation arrangements periodically to ensure relevance to operations of the Bank	The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank. Further a methodology has been prepared and submitted to the Board.	Complied with
3.(5)	**The Chairman and Chief Executive Officer**		
3.(5) (i)	Separation of roles	Roles of Chairman and CEO are held by two individuals appointed by the Board.	Complied with
3.(5) (ii)	Non-Executive Chairman and appointment of a Senior Independent Directors	Mr Sujeewa Rajapakse, who has been appointed as the Chairman of the Bank w.e.f. 26 December 2019 is an independent, Non-Executive Director. As such a requirement does not arise to appoint a senior independent director.	Complied with
3.(5) (iii)	Disclosure of identity of Chairman and CEO and any relationships with the Board members	All transactions with the with KMP and their CFM has been disclosed as a separate note.	Complied with
3.(5) (iv)	Self Evaluation Process of the Board	Has a scheme of self - performance evaluation for the Board of Directors which complies with the requirement.	Complied with
3.(5) (v)	Responsibility for agenda lies with Chairman but may be delegated to Board Secretary	Agenda for Board meeting is drawn up by the Board Secretary in consultation with the Chairman.	Complied with
3.(5) (vi)	Ensure that Directors are properly briefed and provided adequate information	The Chairman ensures, that all Directors are properly briefed on issues arising at Board Meetings. Agenda and Board Papers are circulated to the Directors giving adequate time for them to go through the papers. Minutes of previous month's Board Meeting are distributed to the Board members and tabled at the subsequent Board Meeting for ratification/ approval.	Complied with
3.(5) (vii)	Encourage active participation by all Directors and lead in acting in the interests of the Bank	Board has a process followed to conduct self -evaluation for the Board of Directors which complies with the said requirement.	Complied with
3.(5) (viii)	Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors	Self-Evaluation process covers the contribution of non-executive Directors.	Complied with
3.(5) (ix)	Refrain from direct supervision of KMP and executive duties	Chairman does not directly get involved in the supervision of key manage-ment personnel or any other executive duties.	Complied with
3.(5) (x)	Ensure effective communication with shareholders	Board maintains effective communication with the Government of Sri Lanka who is the main shareholder of the Bank.	Complied with
3.(5) (xi)	CEO functions as the apex executive in charge of the day to day operations	As per section 2.22 of Annex iii of Code of Best Practices (functions & responsibilities of the CEO), he is the apex executive in charge of the day to day management of the Bank's operations and business.	Complied with

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Section	Principle	Compliance and implementation	Complied
3.(6)	**Board Appointed Committees**		
3.(6) (i)	Establishing Board Committees, their functions, and reporting	The Bank has established four Board Committees namely, Audit Committee, Human Resources and Remuneration Committee, Nomination Committee and Integrated Risk Management Committee. Other than the above minimum requirement as per the CBSL direction the bank has established 4 additional Board sub committees. Reports /Minutes of such committees are submitted and tabled at the main board for the information and review by the Board. Annual Report 2021 includes individual reports of each Board subcommittee on pages 207 to 210 and such report includes a summary of its duties, roles and performance of each committee.	Complied with
3.(6) (ii)	**Audit Committee**		
a.	Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit	Board has appointed Mr Sudarshan Ahangama an independent, non-executive Director as the Chairman of the BAC. He is a fellow member of The Institute of Chartered Accountants of Sri Lanka and serves on the Board of MAS Holdings as its Group Finance Director for the past 15 years. He had responsibilities for the finance function in 17 countries across multiple regions. He has experience in mergers and acquisitions cross border transactions, venture capital investments and organizational restructuring work which he handled in addition to his core role in finance. Prior to that he was a Managing Director of John Keells Stock Brokers and was involved in several of the financial services, boards of the company. He was also responsible for setting up software out-sourcing activities at John Keells.	Complied with
b.	Committee to comprise solely of Non-Executive Directors	All members of the committee are non- executive Directors.	Complied with
c.	Audit Committee functions		
	(i) The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;	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.	Complied with
	(ii) The implementation of the CBSL guidelines issued to Auditors from time to time;	Committee has made recommendations on matters in connection with the implementation of the Central Bank guidelines issued to auditors from time to time.	Complied with
	(iii) The application of the relevant accounting standards; and	Committee has reviewed and discussed the relevant accounting standards as and when required.	Complied with
	(iv) The service period, audit fee and any resignation or dismissal of the Auditor	The Auditor General is the External Auditor of the Bank as provided in the Constitution of the country.	Complied with

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Section	Principle	Compliance and implementation	Complied
d.	Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes	This is not relevant since the Bank's auditor is the Auditor General.	Complied with
e.	Provision of non-audit services by an External Auditor	This is not relevant since the Bank's auditor is the Auditor General.	Complied with
f.	Determines scope of audit	Committee has discussed and finalized the nature and scope of the audit with the external auditors in accordance with SLAuS before the audit commences.	Complied with
g.	Review financial information of the Bank	Committee has a process to review financial information of the Bank when the quarterly and annual audited financial statements and the reports pre-pared for disclosure are presented to the committee by the Head of Finance. Head of Finance has presented the quarterly financial statements and key financial ratios and dashboard for the quarter ended 31 December 2021. The committee has recommended the same for submission to the Board.	Complied with
h.	Discussions with External Auditor on interim and final audits	Committee has held a confidential discussion with the representative of Auditor General.	Complied with
i.	Review of Management Letter and Bank's response	Management Letter for 2020 was submitted to the Board Audit Committee on 25 February 2022.	Complied with
j.	Review of internal audit function		
	(i) The adequacy of the scope, functions and resources of the IAD and satisfy itself on necessary authority to carry out its work;	Committee has discussed the Scope and functions of the Internal Audit Department along with the audit plan.	Complied with
	(ii) Internal audit programme and results of the internal audit process	AGM-Audit has presented the Audit Plan 2022 to the Board Audit Committee and BAC has discussed the scope of the Internal Audit and observed main recommendations made on the branches which has issues highlighted by the Management Letter, CBSL statutory examination etc. The committee has reviewed the results of Internal Audit reports submitted with regard to the Bank's departments. The committee has reviewed progress of the Internal Audit plan from time to time.	Complied with
	(iii) Any appraisal or assessment of the performance of the head and senior staff members of IAD	As per Acting Secretary to the Board, BAC, satisfied with the performance of the AGM-Audit for the period 19 June 2020 to 18 June 2021.	Complied with

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Section	Principle	Compliance and implementation	Complied
	(iv) Recommend any appointment or termination of the head, senior staff members, and outsourced service providers	Has not taken place.	Complied with
	(v) The Committee is appraised of resignations of senior staff members of IAD 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;	No resignations of Senior staff of IAD taken place during the year 2021.	Complied with
	(vi) The internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency, and due professional care.	Independency of Internal Audit Department (IAD) from the activities it audits has clearly been established in the Board approved Internal Audit Charter. Further, a separate declaration on independency of Staff members being obtained from all the Staff members annually. Accordingly obtaining the declarations on independence for the year 2021 has been completed.	Complied with
k.	Internal investigations	7 BAC meetings has been conducted during the FY 2021. Audit reports pertaining to Head Office Departments and other Units, Information System Audits, etc. has been tabled at the meeting together with management responses and recommendations of IAD. Further, major findings of Branch audits have been submitted through Root cause analysis as well as quarterly reports on commonly identified deficiencies. Further, the progress reports of internal investigations conducted by the I & I department have also been submitted to the BAC on quarterly basis for their review and to ensure that actions are being taken on timely manner.	Complied with
l.	Attendees at Audit Committee meetings	This is not relevant since there are no Executive Directors in the Board of People's Bank.	Complied with
m.	Explicit authority, resources, and access to information	Board approved Code of Best Practice in Corporate Governance Section 6.1 (d) speaks of the rights of the Board Audit Committee and ensures that the committee has such authority. TOR of the BAC has been further reviewed by the committee and recommended the same for the approval of the Board.	Complied with
n.	Regular meetings	BAC has held seven (07) meetings during the year 2021 and minutes of such meetings are maintained by the Board secretary.	Complied with

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Section	Principle	Compliance and implementation	Complied
o.	Disclosure in Annual Report	Details of the activities of the Audit Committee has been disclosed in the Annual Report 2021 on page 207. Number of meetings and attendance of each individual Director have been disclosed in the Annual Report 2021 on page 187.	Complied with
p.	Maintain minutes of meetings	The Board secretary has been appointed as the Secretary of Board Audit Committee and keeps detailed minutes of the meetings.	Complied with
q.	Whistle-blowing policy and relationship with External Auditor	Board approved Whistle Blowing Policy established in the year 2013 has been reviewed again at the BAC. As per the provisions of the prevailing policy, this policy should be reviewed in every two years. It has reviewed by Internal Audit Department.	Complied with
3.(6) (iii) Human Resources and Remuneration Committee			
(a)	Remuneration policy relating to Directors, CEO/GM and Key Management Personnel of the Bank. GRI 102-35, 102-36	Remuneration of the Directors is decided by the guidelines set up by the Ministry of Finance. As per Acting Secretary to the Board, the Board has reviewed the Terms of reference of Board Subcommittees and implemented a Compensation/ Remuneration Policy to determine the remuneration (salaries, allowances and other financial payments) relating to CEO and KMPs.	Complied with
(b)	Set goals and targets for the Directors, CEO/ GM, and the Key Management Personnel	Goals and targets of CEO and KMPs are documented.	Complied with
(c)	Evaluating the performance of the CEO and Key Management Personnel	A new performance evaluation template for the corporate and executive management of the Bank has been developed. As per the Acting Secretary to the Board, the BHRRC reviewed the performance appraisal of CEO/GM and all KMPs under Strategic Plan.	Complied with
(d)	The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Reviewed Terms of Reference of Board Sub Committees' and CEO/GM was presented at all meetings of the committee, except when matters relating to the CEO/GM are being discussed.	Complied with
3.(6) (iv) Nomination Committee			
a.	Appointment of Directors, CEO and KMP	Directors are appointed by the Minister in charge of the subject as per the provision of the People's Bank Act. Procedure to select/appoint a new CEO is in place in the Succession Plan approved by the Board.	Complied with
b.	Re-election of Directors	This requirement does not arise since Directors are appointed by the Minister in charge of the subject as per the provision of the People's Bank Act.	Complied with

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Section	Principle	Compliance and implementation	Complied
c.	Eligibility criteria for appointments to key managerial positions including CEO	Board has approved the selection criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, DGMs and AGMs who are considered as the key management personnel and has included in their job descriptions. Further, Committee has granted approval for the evaluation criteria for the selection and appointment of KMPs in the Bank.	Complied with
d.	Fit and proper persons	The Annual declarations of the Directors for the year 2021 has been obtained from the directors and sent to the CBSL and the Annual Declaration of CEO/GM for the year 2022 has been obtained and sent to CBSL.	Complied with
e.	Succession Plan and new expertise	Boards of Directors are appointed by the Ministry of Finance. Board approved Succession Plan for CEO and Key Management Personnel is in place.	Complied with
f	Committee Chairman and preferably majority of Directors be Independent. The CEO may be present at meetings by invitation.	Committee is Chaired by Mr Sujeewa Rajapakse who is an independent director. Other members are Mr Sudarshan Ahangama, (Independent) Ms Bhadranie Jayawardhana (non-independent). CEO participates at the NC meetings by invitation.	Complied with
3.(6) (v)	**Integrated Risk Management Committee/Board Risk Management Committee**		
a.	Composition of BIRMC	Committee consists of three Non-Executive Directors, CEO/GM, DGM (Risk Management) and any other officer who participate by invitation. Non-Executive Directors of the Committee are Mr Sudarshan Ahangama (Chairman of BIRMC), Mr K A Vimalenthirarajah, Mr Isuru Balapatabendi, Mr Ranjith Kodituwakku.	Complied with
b.	Risk assessment	BIRMC has implemented a procedure to assess risks such as credit, market, strategic, operational and liquidity risks of the Bank through relevant risk indicators and management information and such risks are reported to BIRMC through Quarterly Risk Report and Risk Matrix table.	Complied with
c.	Review of management level committees on risk	Committee has evaluated the adequacy and effectiveness of all managerial level committees against their current Terms of References (TOR).	Complied with
d.	Corrective action to mitigate risks exceeding prudential levels	Committee has reviewed and considered risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied with
e.	Frequency of meetings	BIRMC has held four (04) meetings during the financial year 2021.	Complied with
f.	Actions against officers responsible for failure to identify specific risks or implement corrective action	As per the Board Secretary's confirmation this is handled by a separate Board subcommittee named BHRRC.	Complied with

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Section	Principle	Compliance and implementation	Complied
g.	Risk assessment report to Board	Committee submits Risk Minutes to the Board for their review.	Complied with
h	Compliance function	Committee has established a compliance function to assess the Bank's compliance with laws, regulations, and regulatory guidelines. Compliance Officer who has been designated as a KMP submits monthly reports on statutory and mandatory requirements/regulations and the status of compliance to the Board and Report on Compliance Risk to the BIRMC. Further, Compliance officer has initiated actions to submit a monthly compliance report on Regulations issued to the Board for their awareness. Compliance function annually obtains a confirmation from all dept. heads to ensure Bank's compliance with internal controls and approved policies on all areas of business operations of the Bank.	Complied with
3.(7)	**Related Party Transactions**		
3.(7) (i)	Avoid conflict of interest GRI 102-25	Section 2.14 of Code of Best Practice of the Bank approved by the Board includes a documented Related Party Policy which speaks on categories of related parties, and for the Bank to avoid any conflicts of interest that may arise from any transaction of the Bank with them. Further, Head of Finance has established a Related Party Transaction Policy which has been recommended by the BAC and approved by the Board.	Complied with
3.(7) (ii)	Related party transactions covered by direction	Section 2.14 of Board approved Code of Best Practice of the Bank includes a documented policy which identifies types of related party transactions and for the Bank to avoid any conflicts of interest that may arise from any transaction with related parties.	Complied with
3.(7) (iii)	Prohibited transactions	As per Section 2.14 of the Board approved Code of Best Practice of the Bank there is a documented Policy which identifies types of related party transactions and to ensure that the Bank does not engage in such transactions in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the Bank carrying on the same transaction with the Bank. Based on the declarations and information re-ceived from Directors and KMP, Bank identifies related party transactions via NIC and CIF from the system and submits a report to BIRMC on quarterly basis. A process established to forward proposals for Accommodations to Compliance Dept. to ensure that the proposals are in compliance with CBSL guidelines. This ensures that the Bank would not offer any "favorable treatment" to related parties than that accorded to other constituents of the Bank carrying on the same business.	Complied with

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Section	Principle	Compliance and implementation	Complied
3.(7) (iv)	Granting accommodation to a Director or close relation to a Director	As per Section 2.14.D of the Board approved Code of Best Practice, there is a documented Policy which speaks on granting accommodation to any of its Directors or to a (close relation) and key management personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board. Deviations have not taken place during 2021.	Complied with
3.(7) (v)	Accommodations granted to persons, or concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank	Section 2.14.E of Board approved Code of Best Practice of the Bank, includes a documented Policy as required by point No. 3(7) (v). Deviations have not taken place during 2021.	Complied with
3.(7) (vi)	Favourable treatment or accommodation to Bank employees or their close relations	As per the Board approved Code of Best Practice Section 2.14.G there is a process in place at the Bank in this regard. No accommodation has granted to employees on a favourable basis other than the general schemes applicable to all employees of the Bank.	Complied with
3.(7) (vii)	Remittance of accommodations subject to Monetary Board approval	As per the Board approved Code of Best Practice Section 2.14.G there is a process in place at the Bank in this regard. Deviations have not taken place during 2021.	Complied with
3.(8)	**Disclosures**		
3.(8) (i)	Publish annual and quarterly financial statements	Bank prepares and publishes Annual / Quarterly Financial Statements in accordance with CBSL prescribed formats and applicable accounting standards. All Quarterly/Annual Financial Statements are prepared and published in the newspapers in three languages.	Complied with
3.(8) (ii)	Disclosures in Annual Report		
a.	A 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.	The statement to this effect is included in the Directors' Responsibility for Financial Reporting on page 216 of the Annual Report 2021.	Complied with
b.	The report by the Board on the Bank's internal control mechanism	Report by the Board on the Bank's internal control mechanism has been disclosed in the "Directors' Statement on Internal Control" on pages 211 to 212 in the Annual Report 2021.	Complied with

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<table>
<tr><th>Section</th><th>Principle</th><th>Compliance and implementation</th><th>Complied</th></tr>
<tr><td>c</td><td>External Auditor's certification on the effectiveness of the internal control mechanism</td><td>"Auditor General's Assurance Report" on Internal Controls disclosed on page 213 in their Annual Report 2021.</td><td>Complied with</td></tr>
<tr><td>d</td><td>Details of Directors, including names, fitness and propriety, transactions with the Bank, and the total of fees/remuneration paid by the Bank</td><td>Details of Directors including names, qualifications and experience disclosed under profiles of Directors on pages 32 and 33 in Annual Report 2021.
Directors' Emoluments have been disclosed under Note 13 to the Financial Statements on page 250.
Aggregate value of Remuneration and transactions with Directors 2021.
<table>
<tr><th></th><th>LKR '000</th></tr>
<tr><td>Short-term employee benefits</td><td>7,340.0</td></tr>
<tr><td>Post-employment pension</td><td>–</td></tr>
<tr><td>Termination benefits</td><td>–</td></tr>
<tr><td>Share-based payments</td><td>–</td></tr>
<tr><td>Other long-term benefits</td><td>–</td></tr>
<tr><td>Loans and advances including credit cards</td><td>512.4</td></tr>
<tr><td>Deposits</td><td>45,119.1</td></tr>
<tr><td>Investments</td><td>–</td></tr>
</table></td><td>Complied with</td></tr>
<tr><td>e</td><td>Total accommodations granted to each category of related parties and as a percentage of the Bank's regulatory capital</td><td>Total accommodation granted to related parties 2021
<table>
<tr><th></th><th>LKR '000</th><th>Percentage of Bank's regulatory capital</th></tr>
<tr><td>Directors</td><td>512.4</td><td>0.000</td></tr>
<tr><td>Closed Family Members of the Directors</td><td>–</td><td>–</td></tr>
<tr><td>Key Management Personnel (KMP)</td><td>127,255.6</td><td>0.116</td></tr>
<tr><td>Closed Family Members of the KMP</td><td>10,850.8</td><td>0.010</td></tr>
<tr><td>Subsidiaries</td><td>326,103.0</td><td>0.297</td></tr>
<tr><td>Sub Subsidiaries</td><td>279,628.0</td><td>0.255</td></tr>
<tr><td>Government and Government Related Entities</td><td>1,047,778,511.2</td><td>954.716</td></tr>
<tr><td>Concern in which any of the Bank's Directors or Close Family Member of any of the Bank's Directors or any of its material shareholder has a substantial interest</td><td>38,633.4</td><td>0.035</td></tr>
</table></td><td>Complied with</td></tr>
</table>

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Section	Principle	Compliance and implementation	Complied
f.	Aggregate values of remuneration to, and transactions with KMP	Aggregate Value of Remuneration and Transactions with KMP 2021	Complied with

	LKR '000
Short-term employee benefits	448,780.1
Post-employment pension	32,689.5
Termination benefits	–
Share-based payments	–
Other long-term benefits	–
Loans and advances including credit cards	127,255.6
Deposits	381,545.2
Investments	-

g.	External Auditors certification of compliance	Board has obtained the Auditor General's Factual Findings Report on Corporate Governance. All findings of the Auditors have been incorporated in this Corporate Governance Report.	Complied with
h.	Report confirming compliance with prudential requirements, regulations, laws, and internal controls	This has been disclosed in "Directors' Responsibility for Financial Reporting" on page 216 of the Annual Report 2021.	Complied with
i.	Non-Compliance Report GRI 102-34	As per the confirmation of compliance officer no such instances/ occurrences during 2021.	Complied with

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BOARD SUBCOMMITTEE REPORTS

BOARD AUDIT COMMITTEE REPORT (BAC)

The Board Audit Committee (BAC) of the Bank was constituted in accordance with the provisions of Banking Act Direction No. 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka. Proceedings of BAC were based on the charter adopted by the Board of Directors for the functioning of the Committee.

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

Mr Sudharshan Ahangama - Chairman
Mr K A Vimalenthirajah
Mr Keerthi Goonatillake

The quorum for a BAC meeting is two (02) members.

The Actg. Board Secretary functions as the Secretary to the BAC. Chief Internal Auditor, Deputy General Manager (Risk Management), Head of Finance and Assistant General Manager (Compliance) attend the BAC meetings on invitation. The Superintendent of the Government Audit also attends these meetings.

The BAC in particular

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

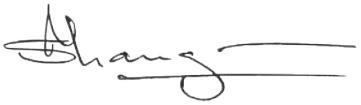
The Committee during the year under review attended to the following:

a. Reviewed quarterly financial performance of the Bank for the year 2021 and recommended to submit the same to the Board.
b. Reviewed and discussed issues raised at CBSL Statutory Examinations and follow-up examinations in 2019/20 and monitored the progress of rectification.
c. Periodic review of internal audit reports and the performance of the Internal Audit Department.
d. Reviewed Information System Procedures and recommended appropriate changes and monitored the progress of their implementation.
e. Reviewed the special reports such as Root Cause Analysis over deficiencies of Branch Operations and Non performing Loans.

Seven (07) meetings were held during the financial year ended 31 December 2021. The BAC considered the internal audit reports, the deficiencies observed therein, responses given by the respective DGMM/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 also followed up on corrective measures taken by the management during the year 2021 on matters raised by CBSL Statutory Examination Reports.

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



SUADHARSHAN AHANGAMA
Chairman
Board Audit Committee
25 February 2022

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT (BHRRC)

Scope

The BHRRC is responsible for formulating human resource (HR) and remuneration policies and initiating strategies in relation to human resource management. The Committee ensures these policies are reviewed regularly and are adhered to in all circumstances.

The Committee plays a key role in recruitment and determining salaries and other employee benefits. The Committee reviews employment contracts of the members of the Corporate and Executive Management as well.

Composition

The Committee shall be appointed by the Board and it consists of at least two Directors of the Board and the Chief Executive Officer/General Manager (CEO/GM).

Present members of BHRRC are:

- Mr Sujeewa Rajapakse – Chairman
- Mr Manjula Wellalage – Director
- Mr Kumar Gunawardana – Director
- Mr Ranjith Kodituwakku – CEO/GM

*** Resignation of Mr Malindu Ranasinghe – 7 March 2021*

DGM (HR) attends meetings on invitation and any other officer of the Bank may be present at meetings on invitation.

Committee meetings

The Committee meets once in two months to address matters within its scope and report to the Board. The quorum for the BHRRC meeting is two Directors of the Board and the CEO/GM.

SHYAMA WIJEKOON
Secretary to the Board (Actg.)
25 February 2022

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BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT (BIRMC)

Scope

The BIRMC is responsible for implementing the risk strategy of the Bank as stipulated by the Board of Directors. The Committee has been given the responsibility to approve frameworks for efficient functioning of the business units and monitoring of risks.

The Committee is responsible for reviewing the risk profile of the Bank within the risk parameters determined by the Board.

The Committee is responsible for the assessment of all risks pertaining to credit, market, liquidity, operational, and strategic risks, using appropriate risk indicators and management information and make recommendation to the Board.

Among other responsibilities related to risk management, the Committee monitors risk oversight, implementation and risk management in relation to credit, finance, operations and legal/compliance and takes corrective action promptly to mitigate the risks.

Composition

The Committee shall be appointed by the Board and it consists of at least three Directors of the Board and the CEO/GM.

Present members of BIRMC are:

- Mr Sudarshan Ahangama – Chairman
- Mr K A Vimalenthirarajah – Director
- Mr Isuru Balapatabendi – Director
- Mr Ranjith Kodituwakku – CEO/GM

DGM (Risk Management) and any other officer of the Bank may be present at meetings by invitation.

Committee meetings

The Committee meets quarterly and additional meetings are conveyed based on necessity to address matters pertaining to risk management and makes recommendations to the Board. The quorum for the BIRMC meeting is two Directors of the Board and the CEO/GM.

SHYAMA WIJEKOON
Secretary to the Board (Actg)
25 February 2022

BOARD EXECUTIVE CREDIT COMMITTEE REPORT (BECC)

Scope

The BECC is authorised to approve all credit proposals over the limit of CEO/GM and imposing additional covenants, conditions when deemed appropriate.

The BECC is also empowered to consider credit rescheduling proposals and lump sum settlement.

Composition

The Committee shall be appointed by the Board and it consists of at least two Directors of the Board and the CEO/GM.

Present members of BECC are:

- Mr Kumar Gunawardana – Chairman
- Mr Keerthi Goonatillake – Director
- Mr Manjula Wellalage – Director
- Mr Ranjith Kodituwakku – CEO/GM

Any other officer of the Bank may be present on invitation.

Committee meetings

The Committee meets at least twice a month. The quorum for the meeting of BECC is three members including two Directors of the Board.

SHYAMA WIJEKOON
Secretary to the Board (Actg)
25 February 2022

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BOARD NOMINATION COMMITTEE REPORT (BNC)

Scope

Main function of the BNC is to implement a procedure to select/ appoint a CEO/GM and Key Management Personnel. The Committee sets the eligibility criteria for appointment or promotion to the post of CEO/GM and the key management positions.

The Committee is also responsible for consideration and recommendation of the requirement for additional/ new expertise and the succession arrangements for retiring Key Management Personnel.

Composition

The Committee shall be appointed by the Board and it consists of at least three Directors of the Board.

Present members of BNC are:

- Mr Sujeewa Rajapakse – Chairman
- Mr Sudarshan Ahangama – Director
- Ms J M B Jayawardhana – Director

CEO/GM attends the meetings on invitation.

*** Resignation of Mr Malindu Ranasinghe - 7 March 2021*

Committee meetings

The Committee meets at quarterly and additional meetings are conveyed based on necessity intervals and reports to the Board. The quorum for the meetings of BNC is three Directors of the Board.

SHYAMA WIJEKOON
Secretary to the Board (Actg)
25 February 2022

BOARD INVESTMENT BANKING COMMITTEE REPORT (BIBC)

Scope

The BIBC was constituted to regularly review the investment banking model and operations of Investment Banking Unit of the Bank. The Committee is authorised to grant approval for share trading limits, new investment products and deploying stock brokers, trading platforms and IT Systems.

Composition

The Committee shall be appointed by the Board and it consists of at least two Directors of the Board and the CEO/GM.

Present members of BIBC are:

- Mr K A Vimalenthirarajah - Chairman
- Mr Kumar Gunawardana - Director
- Mr Isuru Balapatabendi - Director
- Mr Ranjith Kodituwakku - CEO/GM

Head of Treasury and Investment Banking, DGM (Risk Management) and any other officer of the Bank may attend the meetings on invitation.

Committee meetings

The Committee meets quarterly to attend on the matters within its scope. The quorum for the meeting of BIBC is three members including two Directors of the Board.

SHYAMA WIJEKOON
Secretary to the Board (Actg)
25 February 2022

BOARD INFORMATION TECHNOLOGY COMMITTEE REPORT (BITC)

Scope

The BITC was established to facilitate the degree of reliance on information technology and assist the Bank with the growing demand for IT Governance.

The Committee is responsible to formulate overall strategies for IT and make recommendations to the Board on the latest technologies to cater the impending demands.

Composition

The Committee shall be appointed by the Board and it consists of at least two Directors of the Board.

Present members of BITC are:

- Mr Keerthi Goonatillake – Chairman
- Mr Kumar Gunawardana – Director
- Mr Sudarshan Ahangama – Director

*** Resignation of Mr Malindu Ranasinghe - 7 March 2021*

Any other officer of the Bank may attend the meetings on invitation. The quorum for the meeting of BITC is two members.

SHYAMA WIJEKOON
Secretary to the Board (Actg)
25 February 2022

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BOARD STRATEGIC PLAN REVIEW COMMITTEE REPORT (BSPRC)

Scope

The Board Strategic Plan Review Committee was established to regularly review the smooth implementation of the objectives cited in the Strategic Plan. The Committee is authorised to review the performance of all business heads and assist them to achieve business goals within the stipulated time period.

Composition

The Committee shall be appointed by the Board and it consists of at least two Directors and the CEO/GM.

Present members of BSPRC are:

- Mr Sujeewa Rajapakse – Chairman
- Mr Isuru Balapatabendi – Director
- Mr Keerthi Goonatillake – Director
- Mr Sudarshan Ahangama – Director
- Mr Ranjith Kodituwakku – CEO/GM

DGM (Strategic Planning, Performance Management & Research) and any other officer of the Bank may be present at meetings by invitation.

Committee meetings

The Committee meets quarterly and the quorum for the meeting is two members.

SHYAMA WIJEKOON
Secretary to the Board (Actg)
25 February 2022

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DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

In line with the Banking Act Direction No. 11 of 2007, Section 3(8)(ii)(b), the Board of Directors presents this Report on Internal Controls over Financial Reporting of the People's Bank ("The Bank").

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at the Bank. In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank.

In the light of foregoing, the system of internal controls can only provide reasonable, and not absolute assurance, against material misstatement of financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal control over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and in accordance 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 over financial reporting taking into account, principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

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 ADOPTED IN APPLYING IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

- 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:
- Establishment of Board subcommittees to assist the Board in ensuring the effectiveness of the 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 Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Internal audit assignments 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 Department are submitted to the Board Audit Committee (BAC) for review at their periodic meetings.
- The BAC of the Bank reviews internal control issues identified by the Internal Audit Department, regulatory authorities and management, and evaluates 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 same. The minutes of the BAC meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Details of the activities undertaken by the BAC of the Bank are set out in the Board Audit Committee Report (refer page 207).
- In assessing the internal control system, identified officers of the Bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. The Internal Audit Department of the Bank continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.
- In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS progressive improvements on processes to comply with

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requirements of recognition, measurement, classification and disclosure are being made whilst further strengthening of processes will take place pertaining to impairment of loans and advances, credit card operations, management information system and financial statement disclosures related to risk management and related parties. The assessment was not included the subsidiaries of the Bank.

- The Board took necessary steps to implement requirements of the Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) in 2018. The required models have been implemented and processes and controls have been designed. The Board will continuously strengthen the processes and controls over management information system and reports required for validation and compliance in line with SLFRS 9.
- The Internal Audit Department carried out data analysis on certain selected processes of the Bank using computer aided audit techniques/tools covering the entire branch network. All significant findings identified by the Internal Audit Department were submitted to the Board Audit Committee for review at their periodic meetings.
- The comments made by the External Auditors in connection with the internal control system during the financial year 2020 were taken into consideration and steps have been taken to incorporate them where appropriate. Further appropriate measures have been initiated to develop procedures to improve the controls documentation on identification of related party transactions in the ensuing year.

CONFIRMATION

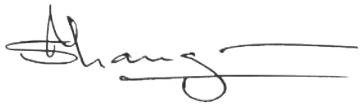
Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Statement on Internal Control included in the Annual Report of the Bank for the year ended 31 December 2021, and reported to the Board that nothing 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 in the review of the design and effectiveness of the Internal Control System of the Bank.

The Assurance Report of the External Auditors in connection with Internal Control Over Financial Reporting is appearing on page 213 of the Annual Report.

For and on behalf of the Board,



SUDHARSHAN AHANGAMA
Chairman
Board Audit Committee

MANJULA WELLALAGE
Director

KEERTHI GOONATILLAKE
Director

21 March 2022

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AUDITOR GENERAL'S ASSURANCE REPORT ON INTERNAL CONTROLS

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය எனது இல. My No. BAN/D/PB/2022/02

ඔබේ අංකය உமது இல. Your No.

දිනය திகதி Date 24 March 2022

ASSURANCE REPORT OF THE AUDITOR GENERAL TO THE BOARD OF DIRECTORS ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL OF PEOPLE'S BANK

Introduction

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

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3(8) (ii) (b) of the Banking Act Direction No. 11 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 People's 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 required that I plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control. For purpose of this engagement, I am not responsible for updating or reissuing any reports, nor have I, in the course of this engagement, performed an audit or review of the financial information.

Summary of Work Performed

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

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

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

The procedures selected depend on my judgement, having regard to my understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Conclusion

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

W P C WICKRAMARATHNE
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.
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FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The responsibility of the Directors in relation to the Financial Statements of the People's Bank is set out in the following statement to distinguish the responsibility of Directors and Auditors.

FINANCIAL STATEMENTS

The Board of Directors of the Bank has responsibility for ensuring that the Bank keeps proper books of accounts of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit/loss for the year. Accordingly, the Board of Directors oversees the Managements' responsibilities for financial reporting through their regular meeting reviews and via the Board Audit Committee. The Board Audit Committee Report is given on page 207.

Directors consider that they adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgement and estimates in preparing the Financial Statements for the year 2021 exhibited on pages 219 to 344.

GOING CONCERN

Directors have adopted the going concern basis in preparation of the Financial Statements with the view that the Bank has adequate resources to continue its business for a foreseeable future.

INTERNAL CONTROLS, RISK MANAGEMENT AND COMPLIANCE

The Board of Directors has instituted effective and comprehensive system of Internal Control. This comprises Internal Checks, Internal Audit and the whole system of financial and other controls required to carry on business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records.

Board of Directors has the responsibility for the oversight of risk, determining risk appetite levels, formulating risk policies and ensuring the effectiveness of the risk management processes and procedures in place. The BIRMC (Board Integrated Risk Management Committee) assists the Board in the discharge of its risk-related duties and provides independent oversight of all risk related aspects by ensuring the adequacy and effectiveness of the implementation of risk governance structures, policy frameworks, standards and processes. BIRMC Report is given on page 208.

The Board of Directors ensure the compliance with prudential requirements, regulations, laws and internal controls, and measures have been taken to rectify any material non-compliances.

AUDIT REPORT

Auditor General Is the Auditor of the Bank in pursuant to provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka and issues the final opinion on the Financial Statements of the Bank, assurance on the Directors' Statement on Internal Controls over Financial Reporting which are published on pages 217 to 218 and 213 respectively. He also certifies the level of compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

COMPLIANCE

The Bank's Financial Statements for the year ended 31 December 2021 prepared and presented in this Report are in conformity with the requirements of Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988, the amendments thereto.

The Financial Statements reflect a true and fair view of the state of affairs of the Bank and as at that date as per the External Auditors' Report.

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

SHYAMA WIJEKOON
Secretary to the Board (Actg)

25 February 2022

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AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය எனது இல. My No. BAN/D/PB/2022/01 ඔබේ අංකය உமது இல. Your No. දිනය திகதி Date 05 March 2022

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the People's Bank and its Subsidiaries for the year ended 31 December 2021 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. FINANCIAL STATEMENTS

1.1 Opinion

The audit of the financial statements of the People's Bank (the "Bank") and the consolidated financial statements of the Bank and its Subsidiaries (the "Group") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018.

The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an Order of then Minister of Finance published in the Government Gazette No.715 of 14 May 1992 by virtue of powers vested in him by Section 5(1) of the said Finance Act. 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 and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2021 and of their financial performance and their 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 Group's 2021 Annual Report

The other information comprises the information included in the Group's 2021 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

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

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

When I read the Bank's 2021 Annual Report, if I conclude that are material misstatements therein. I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154(6) of the Constitution that will be tabled in due course.

1.4 Responsibilities of Management and those charged with governance for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

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

As per Section 16(1) of the National Audit Act, No. 19 of 2018, the Group 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 Group.

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 judgement 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

2. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

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

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

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

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

2.2.4 To state that the resources of the Bank had not been procured and utilised 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

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INCOME STATEMENT

For the year ended 31 December	Note	Bank 2021 LKR '000	Bank 2020 LKR '000	Bank Change %	Group 2021 LKR '000	Group 2020 LKR '000	Group Change %
Gross income	6	207,249,820	190,981,708	8.5	236,795,041	223,898,429	5.8
Interest income		197,330,011	179,717,526	9.8	222,362,450	207,011,058	7.4
Interest expenses		(114,869,171)	(118,783,744)	-3.3	(125,487,671)	(132,580,099)	-5.3
Net interest income	7	82,460,840	60,933,782	35.3	96,874,779	74,430,959	30.2
Fee and commission income		8,268,168	6,723,826	23.0	9,645,136	7,816,265	23.4
Fee and commission expense		(597,786)	(482,522)	23.9	(597,786)	(482,522)	23.9
Net fee and commission income	8	7,670,382	6,241,304	22.9	9,047,350	7,333,743	23.4
Net gain/(loss) from trading	9	(1,345,029)	2,589,121	-151.9	(1,207,608)	2,785,261	-143.4
Other operating income (net)	10	2,996,670	1,951,235	53.6	5,995,063	6,285,845	-4.6
Total operating income		91,782,863	71,715,442	28.0	110,709,584	90,835,808	21.9
Impairment charge	11	(14,472,820)	(11,567,174)	25.1	(14,485,458)	(17,566,149)	-17.5
Net operating income		77,310,043	60,148,268	28.5	96,224,126	73,269,659	31.3
Personnel expenses	12	(22,771,935)	(19,722,367)	15.5	(27,743,883)	(23,693,466)	17.1
Other expenses	13	(17,289,578)	(15,347,735)	12.7	(22,771,171)	(20,258,765)	12.4
Operating Profit Before Value Added Tax (VAT) on financial services		37,248,530	25,078,166	48.5	45,709,072	29,317,428	55.9
Value Added Tax (VAT) on financial services		(6,861,930)	(3,851,486)	78.2	(8,473,708)	(4,670,725)	81.4
Operating Profit After Value Added Tax (VAT) on financial services		30,386,600	21,226,680	43.2	37,235,364	24,646,703	51.1
Share of profits/(loss) of associates (net of tax)		–	–		10,893	878	1140.7
Profit before tax		30,386,600	21,226,680	43.2	37,246,257	24,647,581	51.1
Income tax expenses	14	(6,666,457)	(7,051,737)	-5.5	(9,158,609)	(8,557,095)	7.0
Profit for the year		23,720,143	14,174,943	67.3	28,087,648	16,090,486	74.6
Profit attributable to:							
Equity holders of the Bank		23,720,143	14,174,943	67.3	26,350,975	15,229,858	73.0
Non-controlling interests		–	–		1,736,673	860,628	101.8
		23,720,143	14,174,943	67.3	28,087,648	16,090,486	74.6
Earnings per share on profit	15						
Basic earnings per ordinary share (LKR)	15.1	23,720	14,175	67.3	26,351	15,230	73.0
Diluted earnings per ordinary share (LKR)	15.2	97	58	67.3	108	62	73.0

The Notes appearing on pages 227 to 344 form an integral part of these Financial Statements.

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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Profit for the year	23,720,143	14,174,943	28,087,648	16,090,486
Other comprehensive income/(expense)				
Other comprehensive income that will not be reclassified to the income statement				
Net gains/(losses) on equity instruments at fair value through OCI	(316,074)	(67,773)	(312,977)	(12,379)
Net actuarial gains/(losses) on defined benefit plans	12,959,137	(12,151,314)	12,943,725	(12,050,743)
Deferred tax effect of gains/(losses) on defined benefit plans	(3,110,193)	3,402,368	(3,106,359)	3,374,264
Gains on revaluation of land and buildings	3,672,851	6,523,641	3,822,851	6,573,641
Deferred tax effect on revaluation of land and buildings	(881,484)	(1,826,619)	(917,484)	(1,840,619)
Deferred tax effect on change in income tax rate on the opening balance	245,293	–	245,293	–
	12,569,530	(4,119,697)	12,675,049	(3,955,836)
Other comprehensive income that will be reclassified to the income statement				
Net gains/(losses)(including change in ECL) on debt instruments at fair value through OCI	713	(12,418)	(92,557)	(6,616)
Deferred tax effect on above	–	–	30,075	–
Net gains/(losses) on translating the Financial Statements of foreign operation	–	–	174,124	45,668
	713	(12,418)	111,642	39,052
Other comprehensive income for the year, net of taxes	12,570,243	(4,132,115)	12,786,691	(3,916,784)
Total comprehensive income for the year	36,290,386	10,042,828	40,874,339	12,173,702
Attributable to:				
Equity holders of the Bank	36,290,386	10,042,828	39,105,903	11,287,454
Non-controlling interests	–	–	1,768,436	886,248
	36,290,386	10,042,828	40,874,339	12,173,702

The Notes appearing on pages 227 to 344 form an integral part of these Financial Statements.

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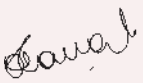
STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Bank 2021 LKR '000	Bank 2020 LKR '000	Bank Change %	Group 2021 LKR '000	Group 2020 LKR '000	Group Change %
Assets							
Cash and cash equivalents	17	57,538,351	71,461,242	-19.5	58,836,831	72,899,208	-19.3
Balances with Central Bank of Sri Lanka	18	56,717,820	14,196,565	299.5	56,717,820	14,196,565	299.5
Placements with banks	19	–	10,304,422	-100.0	3,325,726	13,910,824	-76.1
Derivative financial instruments	20	441,877	97,645	352.5	441,877	97,645	352.5
Financial assets – at fair value through profit or loss	21	1,558,850	46,425,027	-96.6	2,553,546	52,728,589	-95.2
Financial assets – at amortised cost							
Loans and advances to banks	22	10,131,952	23,610,101	-57.1	13,398,055	23,622,700	-43.3
Loans and advances to other customers	23	1,835,697,108	1,635,579,343	12.2	1,990,689,061	1,776,231,315	12.1
Debt instruments measured at amortised cost	24	587,320,182	357,107,701	64.5	600,079,625	365,900,452	64.0
Financial assets – at fair value through other comprehensive income (OCI)							
Equity instruments at fair value through OCI	25	1,621,375	1,937,778	-16.3	1,889,144	1,778,585	6.2
Debt instruments at fair value through OCI	26	9,399,272	2,632,231	257.1	10,596,723	2,899,609	265.5
Investments in subsidiaries	27	3,572,824	1,937,881	84.4	–	–	–
Investments in associates	28	–	–	–	–	531,963	-100.0
Investment properties	29	–	1,261,338	-100.0	–	1,257,499	-100.0
Property, plant and equipment & right-of-use assets	30	46,761,157	38,405,839	21.8	56,432,293	48,101,865	17.3
Intangible assets and goodwill	31	2,077,544	702,181	195.9	2,252,557	1,007,730	123.5
Net deferred tax assets	36	–	695,424	-100.0	–	–	–
Other assets	32	34,802,224	23,763,947	46.4	35,396,730	25,402,844	39.3
Total assets		2,647,640,536	2,230,118,665	18.7	2,832,609,988	2,400,567,393	18.0
Liabilities							
Due to banks	33	107,745,916	164,489,623	-34.5	122,397,825	172,439,795	-29.0
Derivative financial instruments	20	1,761,220	976,486	80.4	1,761,220	976,486	80.4
Due to other customers	34	2,071,532,612	1,835,099,456	12.9	2,168,674,742	1,935,194,040	12.1
Other borrowings	35	241,419,125	36,362,434	563.9	241,419,125	36,362,434	563.9
Current tax liabilities		6,452,823	6,608,202	-2.4	8,512,150	7,538,938	12.9
Net deferred tax liabilities	36	2,687,330	–	–	3,194,714	805,442	296.6
Other liabilities	37	31,102,734	41,041,170	-24.2	43,451,531	51,271,458	-15.3
Subordinated term debts	38	48,861,680	43,557,696	12.2	65,560,465	56,868,035	15.3
Total liabilities		2,511,563,440	2,128,135,067	18.0	2,654,971,772	2,261,456,628	17.4
Equity							
Stated capital/assigned capital	39	12,201,998	12,201,998	–	12,201,998	12,201,998	–
Statutory reserve fund	40	9,210,528	8,024,521	14.8	9,210,528	8,024,521	14.8
Other reserves	41	35,902,287	32,859,237	9.3	38,160,081	34,923,662	9.3
Retained earnings	42	78,762,283	48,897,842	61.1	104,755,265	72,268,676	45.0
Total shareholders' equity		136,077,096	101,983,598	33.4	164,327,872	127,418,857	29.0
Non-controlling interests		–	–		13,310,344	11,691,908	13.8
Total equity		136,077,096	101,983,598	33.4	177,638,216	139,110,765	27.7
Total equity and liabilities		2,647,640,536	2,230,118,665	18.7	2,832,609,988	2,400,567,393	18.0
Contingent liabilities and commitments	43	428,771,195	489,938,862	-12.5	443,842,195	497,689,847	-10.8

The Notes appearing on pages 227 to 344 form an integral part to these Financial Statements.

Certification

These Financial Statements give a true and fair view of the state of affairs of the Bank and its subsidiaries as at 31 December 2021 and the profit for the year then ended.

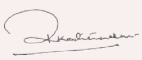


AZZAM. A. AHAMAT
Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf:

SUJEEWA RAJAPAKSE
Chairman

SUDARSHAN AHANGAMA
Director



RANJITH KODITUWAKKU
Chief Executive Officer/General Manager

Colombo
28 February 2022

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STATEMENT OF CHANGES IN EQUITY – BANK

	Stated capital/Assigned capital	
	Ordinary shares	Assigned capital
	LKR '000	LKR '000
Balance as at 1 January 2020	49,998	12,152,000
Total comprehensive income for the year		
Profit for the year	–	–
Other comprehensive income/(expense) (net of taxes)	–	–
Total comprehensive income/(expense)	–	–
Transactions with equity holders, recognised directly in equity		
Transfer to reserve during the year	–	–
Special levy to treasury/dividend	–	–
Total transactions with equity holders	–	–
Balance as at 31 December 2020	49,998	12,152,000
Balance as at 1 January 2021	49,998	12,152,000
Total comprehensive income for the year		
Profit for the year	–	–
Other comprehensive income/(expense) (net of taxes)	–	–
Total comprehensive income/(expense)	–	–
Transactions with equity holders, recognised directly in equity		
Transfer to reserve during the year	–	–
Special levy to treasury/dividend	–	–
Total transactions with equity holders	–	–
Balance as at 31 December 2021	49,998	12,152,000

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	Reserves				
Statutory reserve fund	Revaluation reserve	Other reserves	Financial assets at FVOCI reserve	Retained earnings	Total
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
7,315,774	14,051,911	12,700,465	616,166	48,078,126	94,964,440
–	–	–		14,174,943	14,174,943
–	4,697,022	–	(80,191)	(8,748,946)	(4,132,115)
–	4,697,022	–	(80,191)	5,425,997	10,042,828
708,747	–	873,864		(1,582,611)	–
–	–	–		(3,023,670)	(3,023,670)
708,747	–	873,864	–	(4,606,281)	(3,023,670)
8,024,521	18,748,933	13,574,329	535,975	48,897,842	101,983,598
8,024,521	18,748,933	13,574,329	535,975	48,897,842	101,983,598
–	–	–	–	23,720,143	23,720,143
	2,791,367		(315,361)	10,094,237	12,570,243
–	2,791,367	–	(315,361)	33,814,380	36,290,386
1,186,007	–	567,044	–	(1,753,051)	–
–	–	–	–	(2,196,888)	(2,196,888)
1,186,007	–	567,044	–	(3,949,939)	(2,196,888)
9,210,528	21,540,300	14,141,373	220,614	78,762,283	136,077,096

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STATEMENT OF CHANGES IN EQUITY – GROUP

	Stated capital/Assigned capital	
	Ordinary shares	Assigned capital
	LKR '000	LKR '000
Balance as at 1 January 2020	49,998	12,152,000
Total comprehensive income for the year		
Profit for the year		
Other comprehensive income/(expense) (net of taxes)		
Total comprehensive income/(expense)	–	–
Transactions with equity holders, recognised directly in equity		
Transfer to Reserve during the period		
Special levy to treasury/dividend		
Dividends paid		
Total transactions with equity holders	–	–
Balance as at 31 December 2020	49,998	12,152,000
Balance as at 1 January 2021	49,998	12,152,000
Total comprehensive income for the year		
Profit for the year	–	–
Other comprehensive income/(expense) (net of taxes)		
Total comprehensive income/(expense)	–	–
Transactions with equity holders, recognised directly in equity		
Transfer to reserve during the year		
Special levy to treasury/dividend		
Dividends paid		
Total transactions with equity holders		
Balance as at 31 December 2021	49,998	12,152,000

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	Reserves						
Statutory reserve fund	Revaluation reserve	Other reserves	Financial assets at FVOCI reserve	Retained earnings	Total	Non-controlling interest	Total equity
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
7,315,774	15,863,971	12,934,746	498,755	70,339,829	119,155,073	10,860,660	130,015,733
				15,229,858	15,229,858	860,628	16,090,486
	4,724,022	34,251	(5,947)	(8,694,730)	(3,942,404)	25,620	(3,916,784)
–	4,724,022	34,251	(5,947)	6,535,128	11,287,454	886,248	12,173,702
708,747		873,864		(1,582,611)	–		–
				(3,023,670)	(3,023,670)	–	(3,023,670)
					–	(55,000)	(55,000)
708,747	–	873,864	–	(4,606,281)	(3,023,670)	(55,000)	(3,078,670)
8,024,521	20,587,993	13,842,861	492,808	72,268,676	127,418,857	11,691,908	139,110,765
8,024,521	20,587,993	13,842,861	492,808	72,268,676	127,418,857	11,691,908	139,110,765
–	–	–	–	26,350,975	26,350,975	1,736,673	28,087,648
	2,876,867	130,593	(338,085)	10,085,553	12,754,928	31,763	12,786,691
–	2,876,867	130,593	(338,085)	36,436,528	39,105,903	1,768,436	40,874,339
1,186,007	–	567,044	–	(1,753,051)	–	–	–
–	–	–	–	(2,196,888)	(2,196,888)	–	(2,196,888)
–	–	–	–	–	–	(150,000)	(150,000)
1,186,007	–	567,044	–	(3,949,939)	(2,196,888)	(150,000)	(2,346,888)
9,210,528	23,464,860	14,540,498	154,723	104,755,265	164,327,872	13,310,344	177,638,216

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STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Cash flows from operating activities					
Profit before tax		30,386,600	21,226,680	37,246,257	24,647,581
Adjustment for					
Non-cash items included in profits before tax	48	21,016,209	17,615,543	23,549,038	25,158,730
Changes in operating assets	49	8,218,642	70,895,348	10,273,834	64,805,293
Changes in operating liabilities	50	146,020,006	(31,274,574)	155,041,174	(34,755,204)
Changes in loans and advances to customers		(214,590,585)	(336,996,380)	(228,511,999)	(332,496,596)
Change in deposits from customers, banks and debt securities issued		236,433,156	343,713,519	233,480,702	346,290,942
Dividend income from subsidiaries and others		(1,802,759)	(888,451)	(174,065)	(173,024)
Interest expense on subordinated debt		5,103,325	3,689,299	6,966,957	5,722,717
Contribution to defined benefit plans/gratuity		955,663	2,585,372	1,081,522	2,707,923
Tax paid		(7,185,466)	(4,410,290)	(9,544,600)	(7,628,425)
Net cash generated from operating activities		224,554,791	86,156,066	229,408,820	94,279,937
Cash flows from investing activities					
Purchase of property, plant and equipment		(1,527,988)	(975,114)	(3,253,303)	(1,863,915)
Proceeds from the sale of property, plant and equipment		79,213	46,552	143,299	61,850
Purchase of financial investments		(232,273,659)	(76,792,745)	(236,240,351)	(75,781,540)
Net purchase of intangible assets		(2,013,497)	(196,222)	(2,025,351)	(207,914)
Dividends received from investment in subsidiaries and others		1,802,759	888,451	174,065	173,024
Net cash (used in) from investing activities		(233,933,172)	(77,029,078)	(239,945,748)	(77,618,495)
Cash flows from financing activities					
Proceed received from subordinated debt	38.1	5,000,000	20,000,000	15,000,000	20,000,000
Repayment of subordinated debt	38.1	–	–	(7,230,443)	(4,483,521)
Interest paid on subordinated debt	38.1	(4,799,341)	(2,846,093)	(6,044,084)	(4,884,252)
Repayment of lease liabilities	37.4	(2,548,281)	(2,499,141)	(2,904,035)	(2,910,428)
Dividend paid to non-controlling interest		–	–	(150,000)	(55,000)
Dividend/levy paid to holders of other equity instruments		(2,196,888)	(3,023,670)	(2,196,888)	(3,023,670)
Net cash from financial activities		(4,544,510)	11,631,096	(3,525,450)	4,643,129
Net increase/(decrease) in cash and cash equivalents		(13,922,891)	20,758,084	(14,062,377)	21,304,570
Cash and cash equivalents at the beginning of the year		71,461,242	50,703,158	72,899,208	51,594,638
Cash and cash equivalents at the end of the year		57,538,351	71,461,242	58,836,831	72,899,208

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NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 Corporate information

People's Bank ("The Bank") is a Government-owned bank, established under People's Bank Act No. 29 of 1961 on 1 July 1961 and is domiciled in Sri Lanka. The registered office of the Bank is at No. 75, Sir Chittampalam A Gardiner Mawatha, Colombo 02. The Consolidated Financial Statements of the Bank for the year ended 31 December 2021, comprises the Bank and its subsidiaries (together referred to as the "Group").

People's Bank is the ultimate parent of the Group.

1.2 Principal activities

Bank

The Bank's business comprises, accepting deposits, granting credit facilities, personal banking, development banking, pawn brokering, international trade, dealing in Government Securities, credit card operations, investment banking and offshore banking unit for foreign currency banking, *inter alia.*

Subsidiaries

The principal activities of the Bank's subsidiaries are as follows:

Name of company	Principal activities
People's Leasing & Finance PLC	The principal business activities are providing finance leases, hire-purchase assets financing, term loans, Islamic finance, margin trading, share trading, issue of debt instruments, factoring, gold loans and mobilisation of public deposits.
People's Travels (Private) Limited	Arrangement of tours and air ticketing (travel agent).

Sub subsidiaries

The principal activities of the Bank's sub subsidiaries are as follows:

Name of company	Principal activities
People's Leasing Fleet Management Limited	Fleet management, vehicle valuation, sale of vehicles, insurance assessment, and vehicle repairing.
People's Leasing Property Development Limited	Carrying out a mixed development projects and property development activities.
People's Insurance PLC	Carrying out general insurance business.
People's Micro – Commerce Limited	Providing non-bank financial services to low income earners and micro enterprises.
People's Leasing Havelock Properties Limited	Construct and operate an office complex.
Lankan Alliance Finance Limited	Providing leasing of movable and immovable properties and to provide loans.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The Consolidated Financial Statements of the Group and the Separate Financial Statements of the Bank which comprise with the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, and Statement of Cash Flow have been prepared in accordance with Sri Lanka Accounting Standards (LKAS and SLFRS) as issued by The Institute of Chartered Accountants of Sri Lanka. The preparation and presentation of these Financial Statements are in compliance with the requirements of the People's Bank Act No. 29 of 1961. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988.

2.2 Directors responsibility for financial statements

The Board of Directors is responsible for the Consolidated and Separate Financial Statements in compliance with the requirements of the People's Bank Act No. 29 of 1961, Banking Act No. 30 of 1988 and its amendments, and Sri Lanka Accounting Standards (LKAS and SLFRS).

2.3 Approval of financial statements

The Consolidated and Separate Financial Statements for the year ended 31 December 2021, were authorised for issue on 28 February 2022 by the Board of Directors.

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3. BASIS OF MEASUREMENT

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following items in the Statement of Financial Position:

- Derivative financial instruments are measured at fair value (Note 20)
- Financial instruments at fair value through profit or loss are measured at fair value (Note 21)
- Equity instruments at fair value through OCI are measured at fair value (Note 25)
- Debt instruments at fair value through OCI are measured at fair value (Note 26)
- The liability for defined benefit obligations are actuarially valued and recognised as the present value of the defined benefit obligation less the net total fair value of the plan assets (Note 37)
- Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation of buildings and any impairment losses (Note 30)

3.1 Functional and presentation currency

The Consolidated and Separate Financial Statements are presented in Sri Lanka Rupees, which is the Bank's functional currency. Financial information presented in Sri Lanka Rupees has been rounded to the nearest thousand unless indicated otherwise.

3.2 Materiality and aggregation

As per Sri Lanka Accounting Standards – LKAS 1 – "Presentation of Financial Statements", each material class of similar item is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

3.3 Cash flow statement

The Cash Flow Statement has been prepared using the "Indirect Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 – "Statement of Cash Flows". Cash and cash equivalents comprise 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. The cash and cash equivalent include cash in hand, balances with banks and, money at call and short notice.

3.4 Comparative information

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies, Management has exercised judgement and estimates and assumptions in determining the amounts recognised in the Financial Statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about judgements, assumptions and estimates made in applying accounting policies that have the most significant effects on the amounts recognised in the Consolidated and Separate Financial Statements are set out below.

4.1 Going concern

The Directors have made an assessment of the Group's 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.

4.2 Defined benefit obligations

The value of the defined benefit obligations are determined using actuarial valuation technique. The actuarial valuation involves making assumptions on discount rates, expected rates of return on assets, future salary increases, and mortality rates. All assumptions are reviewed at each reporting date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See Notes 37.1.5 and 37.2.5 for the assumptions used.

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4.3 Fair value of property, plant and equipment

The freehold land and buildings and the buildings on leasehold land of the Group are reflected at fair value at the date of revaluation less any accumulated depreciation and impairment losses. The Group engaged independent valuation specialists to determine fair value of such properties. When current market prices of similar assets are available, such evidences are considered in estimating fair value of these assets.

4.4 Useful life time of property, plant and equipment

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

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

4.5 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 recognised in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 43.

4.6 Classification of investment properties

Management requires using its judgement to determine whether a property qualifies as an investment property. The Group has exercised its judgement consistently to recognise a property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group are accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Group assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

4.7 Critical accounting assumptions and estimates

Assumptions made at each reporting date are based on best estimates at that date. Although the Bank has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies which are most sensitive to the use of judgement, estimates and assumptions are specified below:

(i) Fair value measurement

A significant portion of financial instruments are carried at fair value as of the financial reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Bank has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

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(ii) Impairment charges on loans and advances

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Bank makes judgements mainly about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality/levels of arrears, credit utilisation etc.), and concentrations of risk and economic data (including levels of unemployment, Inflation, GDP Growth Rate etc.).

5. SIGNIFICANT ACCOUNTING POLICIES

Group has consistently applied the accounting policies as set out from Note 5.1 to Note 5.23 to all periods presented in these Consolidated and Separate Financial Statements.

5.1 Basis of consolidation

The Financial Statements of the Bank and the Group comprise the Financial Statements of the Bank and its Subsidiaries for the year ended 31 December 2021. The Financial Statements of the Bank's subsidiaries for the purpose of consolidation are prepared for the same reporting year as that of People's Bank, using consistent accounting policies.

5.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in Income Statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in Income Statement.

5.1.2 Non-controlling interests ("NCI")

NCI are measured at their proportionate share of the acquirer's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

5.1.3 Subsidiaries

"Subsidiaries" are investees controlled by the Group. The Group "controls" an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

5.1.4 Loss of control

When the Group loses control over a subsidiary, it de-recognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in Income Statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost.

5.1.5 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

5.2 Foreign currency translation

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

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5.3 Financial instruments – Initial recognition

5.3.1 Date of recognition

A financial asset or financial liability is recognised in the Statement of Financial Position when the Bank becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and advances are recognised when cash is advanced (or settled) to the borrowers.

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Non-regular purchases of financial assets and liabilities are recognised on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument.

A regular purchase is a purchase of a financial asset under a contract whose terms require delivery of the assets within the time frame established generally by a regulation or convention in the market place concerned.

5.3.2 "Day 1" difference for staff loans

All staff loans are granted at below market interest rates and were recognised at fair value. The difference between the fair value and the amount disbursed were treated as day one difference and amortised as staff cost in the Income Statement over the loan period by using the effective interest rate. This amount is shown as interest income as well. Hence the net effect on the Income Statement is zero.

5.4 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 5.4.1 and 5.4.2 below. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, transaction costs are added to, or subtracted from, this amount.

5.4.1 Business model assessment

The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on Management's intention for an individual instruments. Accordingly the Group's business model is not an instrument-by-instrument approach to classification, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of a business model and the financial assets held within that business model are evaluated and reported to the Group's Key Management Personnel;
- The risk that affect the performance of the business model (and the financial assets held within the business model) and, in particular, the way in which those risks are managed;
- How managers of the business are compensated (whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows are realised in a way that is different from the Group's original expectations, that neither give a rise to a prior period error nor change the classification of the remaining financial assets held in that business model. However, when the Group assesses the business model for newly originated or newly purchased financial assets, it considers information about how cash flows were realised in the past, along with all other relevant information.

5.4.2 Contractual cash flow assessment – Solely Payments of Principal and Interest (SPPI test)

The Group assesses contractual cash flows of the basic lending arrangement to identify whether they meet SPPI test. That is whether they are solely payments of principal and interest on the principal amount outstanding.

For this purpose "Principal" is defined as the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset.

For this purpose "Interest" consist of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin. Group applies judgement 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.

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5.5 Measurement categories of financial assets and liabilities

All financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics measured at either –

- Amortised cost (Note 5.5.1)
- Fair value through other comprehensive income (Note 5.5.2)
- Fair value through profit or loss (Note 5.5.3)

5.5.1 Financial instruments measured at amortised cost

Debt instruments

Investments in debt instruments are measured at amortised cost where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by holding to collect contractual cash flows.
- These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in Note 5.6 Impairment of financial assets.

Loans and advances to banks, Loans and advances to other customers

The Group measures Loans and advances to banks and Loans and advances to other customers including leases and hire purchase contracts at amortised cost since both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order 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.

5.5.2 Financial assets measured at fair value through other comprehensive income

Debt instruments

Investments in debt instruments are measured at fair value through other comprehensive income where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in profit and loss. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement.

The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost. The expected credit loss model is described below in Note 5.6 Impairment of financial assets.

Equity instruments

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

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

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5.5.3 Financial assets at fair value through profit or loss

Items at fair value through profit or loss comprise:

(a) Items held for trading;

(b) Items specifically designated as fair value through profit or loss on initial recognition; and

(c) Debt 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 recognised at fair value, with transaction costs recognised in the Income Statement as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the Income Statement 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.

(a) Financial instruments held for trading

A financial instrument is classified as held for trading 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.

Trading derivatives and trading securities are classified as held for trading and recognised at fair value.

(b) Financial instruments designated as measured at fair value through profit or loss

Upon initial recognition, financial instruments may be designated as measured at fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis. A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch or:

- If a host contract contains one or more embedded derivatives; or
- If financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Bank's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

5.5.4 Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable, and typically comprise of instruments such as swaps, forward rate agreements, futures and options.

All derivatives are recognised in the Statement of Financial Position at fair value and are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is re measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

5.5.5 Reclassification of financial assets and liabilities

With the adoption of SLFRS 9, the Bank reclassifies its financial assets subsequent to the initial recognition when an only when the business model for managing such financial asset is changed. Such reclassification is applied prospectively from the reclassification date. Financial liabilities are never reclassified.

5.6 Impairment of financial assets

The Bank/Group applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

- Debt instruments measured at amortised cost and fair value through other comprehensive income;
- Loan commitments; and
- Financial guarantee contracts.

No ECL is recognised on equity investments.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

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Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Bank determines 12 month ECL from customers who are not significantly credit deteriorated (i.e. less than 30 days past due)

Stage 2: Lifetime ECL – not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset is recognised.

In consistent with the policies of the Bank, significant deterioration is measured through the rebuttable presumption of 30 days past due other than the credit facilities categorised under Stage 3, in line with the requirements of the standard.

Bank also have considered all restructured loans, which are restructured up to two times, other than credit facilities/ exposures upgraded credit facilities from a higher stage to a lower stage consider under Stage 2 as per the guidance issued by the Central Bank of Sri Lanka (CBSL).

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Bank determines credit facilities where contractual payments of a customer are more than 90 days past due which are subject to the rebuttable presumption as stated in SLFRS 9 together with all NPL classifications as per Central Bank (CBSL) classification, All restructured loans which are restructured more than twice and all rescheduled loans other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage and all credit facilities/customers classified as non-performing as per CBSL Directions under Stage 3.

5.6.1 Determining the stage for impairment

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

The Bank assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry and other relevant factors.

5.6.2 Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive.

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- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ECLs are recognised using a provision for doubtful debts account in profit and loss. In the case of debt instruments measured at fair value through other comprehensive income, the measurement of ECLs is based on the three-stage approach as applied to financial assets at amortised cost. The Bank recognises the provision charge in profit and loss, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount of the asset in the Statement of Financial Position.

5.7 De-recognition of financial assets and financial liabilities

5.7.1 Financial assets

The Bank de-recognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

5.7.2 Financial liabilities

A financial liability is de-recognised from the Statement of Financial Position when the Bank has discharged its obligation or the contract is cancelled or expires.

5.7.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the Statement of Financial Position when the Bank has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

5.8 Leases

5.8.1 Finance lease income

Assets leased to customers to whom the Group transfers substantially all the risks and rewards associated with ownership other than the legal title are classified as finance leases. Amounts receivable under finance leases are included under "Lease Rental Receivable". Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.

5.8.2 SLFRS 16 – Leases

SLFRS 16 supersedes LKAS 17 – Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.

Upon adoption of SLFRS 16, The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Additionally, the Bank/Group applied the following practical expedients permitted by SLFRS 16 to leases previously classified as operating leases under LKAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application.

5.9 Cash and cash equivalents

Cash and short term funds include cash in hand, balances with banks, placements with banks and money at call and at short notice. Details of the cash and short-term funds are given in Note 17 to the Financial Statements.

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5.10. Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the Statement of Financial Position.

5.11 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

5.11.1 Basis of recognition

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

5.11.2 Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete.

The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 (LKAS 40) "Investment Property". Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses and buildings classified as investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

5.12 Intangible assets and goodwill

5.12.1 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill acquired in a business combination is tested annually for impairment or more frequently if events or changes in circumstance indicate that it might be impaired and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

5.12.2 Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any impairment. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

5.12.3 Amortisation

Software is amortised on a straight-line basis in Income Statement over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is five years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

5.13 Impairment of non-financial assets

5.13.1 Basis of recognition

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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5.13.2 Measurement

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement.

Impairment losses relating to goodwill are not reversed in future periods.

Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's CGUs or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with SLFRS 8 "Operating Segments".

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Income Statement.

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5.14 Pension benefits

5.14.1 Defined benefit pension plans

5.14.1.1 Pre-1996 – Pension Trust Fund

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1 January 1996, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit method.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31 December 2021, by Mr Piyal S Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuary.

The Bank provides a pension to retiring staff on the following basis: Staff are eligible to draw a pension after 10 years of service and after reaching normal age of retirement of 57 years. The quantum of pension paid is dependent on the length of service as follows:

Length of service	Quantum of pension
i. 10 to 20 years	80% of last drawn gross salary
ii. 21 to 29 years	80% plus 1% for each additional year in excess of 20 years of last drawn gross salary
iii. 30 years and above	90% of last drawn gross salary

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The Financial Statements of the Pension Trust Fund are maintained separately and are subject to annual audit by Independent External Auditors. The Financial Statements as well as the Auditors Report are tabled and reviewed by the Board of Trustees. These Financial Statements and Auditor's Report are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at required levels. Pension is payable monthly as long as the participant is alive.

5.14.1.2 Post-1996 – Pension Fund

As approved by the Ministry of Finance the Bank has almost finalised a new pension fund for permanent employees who joined the Bank post-1 January 1996. Since the Bank has concluded this as a define benefit plan, the surplus/deficit has been recorded as per LKAS 19.

The latest actuarial valuation was carried out as of 31 December 2021, by Mr Piyal S Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

5.14.1.3 Gratuity

Employees who joined the Bank on or after 1 January 1996 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, or if opted can join the proposed new post 1996 pension fund and if so such employees will forfeit their right to gratuity.

Other employees whose services are terminated other than by retirement are eligible to receive terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of Gross Salary applicable to the last month of the financial year in which employment is terminated, for each year of continuous service, for those who have served in excess of five years.

If a participant who has completed five years of services becomes totally and permanently disabled, he is eligible for disability gratuity. Further if an active participant with minimum of five years of service, dies while in service, a gratuity benefit will be paid to his heirs.

The Bank makes a monthly provision towards such Gratuity Payment Liabilities and this value is reflected in the Statement of Financial Position of the Bank, the Bank made a provision based on the Actuarial Valuation. However as per Sri Lanka Accounting Standards the Bank has provided for gratuity liability based on an Actuary Valuation.

The subsidiary and associate companies of the Bank provide for gratuity under the Payment of Gratuity Act No. 12 of 1983. Provision for Gratuity has been made for employees who have completed one year of service with the companies. These liabilities are not externally funded.

5.14.2 Defined contribution plans

The Bank also operates a defined contribution plan. 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". Unpaid contributions are recorded as a liability. The Bank contributes to the following Schemes:

5.14.2.1 Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act and is maintained internally.

5.14.2.2 Employees' Trust Fund

The Bank contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees' Trust Fund Board.

5.15 Widow's/Widowers' and Orphans Pension Plan (Pre-1996/Post-1996)

A separate fund is maintained in order to meet future obligations under the scheme, based on the advice of a qualified actuary. Further this fund is solely funded through the contributions of participants/employees.

5.16 Provision

Provisions are recognised 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.

5.17 Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any

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contingencies and capital commitments of a subsidiary or associate for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

5.17.1 Basis of recognition

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial under commitments at facility value.

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 recognised in the Statement of Financial Position but are disclosed unless they are remote.

5.17.2 Measurement

Any increase in the commitment relating to financial guarantees is recorded in the Statement of Financial Position. The premium received is recognised in the Income Statement in "Net fees and commission income" on a straight line basis over the life of the guarantee.

5.18 Taxes

5.18.1 Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the Statement of Financial Position date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and its amendment Act No. 10 of 2021 at the rates specified in Note 14 to the Financial Statements. Further the gains and profit from dividends received from a resident company taxed at 14%. Other than the gain and profit from dividends received from a resident company taxable income of the Bank taxed at 24%.

5.18.2 Deferred taxation

Deferred tax is provided using the liability method on temporary differences at the Statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

5.18.2.1 Deferred tax liability

Deferred tax liabilities are recognised for all 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 transaction, affects neither the accounting profit nor the taxable profit or loss; and
- 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 reverse in the foreseeable future.

5.18.2.2 Deferred tax assets

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where deferred tax assets relating to the deductible temporary differences arise 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 the taxable profit or losses; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each Statement of Financial Position date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each Statement of Financial Position date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the Statement of Financial Position date.

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5.18.3 Value Added Tax on Financial Services (FSVAT)

Bank's total value addition was subjected to a 15% Value Added Tax as per Section 25A of the Value Added Tax No. 14 of 2002 and amendments thereto.

5.18.4 Value Added Tax (VAT)

Value Added Tax is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. VAT is payable at the rate of 8%.

5.18.5 Crop Insurance Levy (CIL)

As per the provision of the Section 14 of the Finance Act No. 12 of 2013, the Crop Insurance Levy (CIL) was introduced with effect from 1 April 2013. Accordingly, Bank is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund.

5.19 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The specific recognition criteria for each type of income are given in Notes 6 to 10.

5.19.1 Income from Government Securities and securities purchased under resale agreements

Discounts/premium on treasury bills and treasury bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreements is recognised in the Income Statement on Effective Interest Rate [EIR] over the period of the agreement.

5.19.2 Rental income

Rental income arising on operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the Income Statement in 'other operating income.

5.20 Segmental reporting

The Bank's segmental reporting is based on the following operating segments: Retail Banking, Corporate Banking, and Treasury and Primary dealer unit, Leasing, Insurance Finance and Travels. Information relating to above is disclosed in Note 47.

5.21 Deposit insurance scheme

In terms of the Banking Act Direction No. 5 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments there to, all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations No. 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1 October 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following:

- Deposit liabilities to member institutions
- Deposit liabilities to Government of Sri Lanka
- Deposit liabilities to Directors, Key Management Personnel and other related parties as defined in Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- Deposit liabilities held as collateral against any accommodation granted
- Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka.

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio (CAR) of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks (with CAR below 14%) calculated on the total amount of eligible deposits as at the end of the quarter payable within a period of 15 days from the end of the quarter.

5.22 Subsequent events

Events occurring after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date of the Financial Statements are authorised for issue.

All material and important events which occur after reporting date have been considered and disclosed in Note 44 to the Financial Statements as adjusted as applicable.

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5.23 Policies specific to insurance sector

5.23.1 Significant accounting estimates and assumptions

Non-life insurance contract liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the Statement of Financial Position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods and frequency/severity method.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

5.23.2 Revenue recognition

Gross written premium

Non-life insurance gross written premium comprises the total premium receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

Reinsurance premium

Non-life gross reinsurance premium written comprises the total premium payable for the whole cover provided by contracts entered into the period and is recognised on the date on which the policy incepts. Premium includes any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premium is the proportion of premium written in a year that relates to periods of risk after the reporting date. Unearned reinsurance premium is deferred over the term of the underlying direct insurance policies.

5.24 Standards issued but not yet effective

The new and amended standards that are issued, but not yet effective to the date of issuance of these Financial Statements are disclosed below:

- SLFRS 17 – Insurance Contracts
- Amendments to SLFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to LKAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to LKAS 37
- Amendments to LKAS 1: Classification of Liabilities as Current or Non-current

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6. GROSS INCOME

Accounting policy

Revenue is recognised to the extent that it is probable that the economic benefit(s) will flow to the Bank/Group and the revenue can be reliably measured. The specific recognition criteria for each type of income are more fully set off in respective Income Notes.

		Bank		Group	
For the year ended 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Interest income	7.1	197,330,011	179,717,526	222,362,450	207,011,058
Fee and commission income	8.1	8,268,168	6,723,826	9,645,136	7,816,265
Net gain/(loss) from trading	9	(1,345,029)	2,589,121	(1,207,608)	2,785,261
Other operating income (Net)	10	2,996,670	1,951,235	5,995,063	6,285,845
		207,249,820	190,981,708	236,795,041	223,898,429

7. NET INTEREST INCOME

Accounting policy

The Bank/Group calculates interest income/expense by applying the Effective Interest Rate [EIR] to the amortised cost of financial assets/liability other than credit impaired assets.

The effective interest rate method

Under SLFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL and interest-bearing financial assets measured at FVOCI. Interest expense is recorded using the effective interest rate (EIR) method for liabilities recorded such as due to banks, due to other customers and other borrowings.

EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the said financial instrument and includes any fees or incremental costs that are directly attributable to the instrument which are an integral part of the EIR, but excludes future credit losses.

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

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7.1 Interest income

For the year ended 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Cash and cash equivalents	239,785	527,684	285,264	550,000
Placements with banks	2,420,536	1,987,526	2,525,712	2,222,532
Loans and advances – to banks	1,206,812	1,486,486	1,274,194	1,506,641
Financial assets – at fair value through profit or loss	768,284	3,813,643	768,284	3,813,643
Loans and receivables to other customers	153,693,234	147,279,023	177,714,884	173,629,103
Debt instruments measured at amortised cost	37,343,071	23,550,057	38,075,269	24,134,124
Debt instruments at fair value through OCI	704,633	250,767	765,187	332,675
Day one difference on staff loans	953,656	822,340	953,656	822,340
Total interest income	197,330,011	179,717,526	222,362,450	207,011,058

7.2 Interest expenses

For the year ended 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Due to banks	8,114,157	10,427,789	8,982,646	11,524,394
Due to other customers	97,603,454	102,486,876	105,318,788	113,027,253
Other borrowings	3,465,215	1,460,161	3,451,678	1,407,060
Debt securities issued	5,103,325	3,689,299	6,966,957	5,722,717
Interest on lease liabilities	583,020	719,619	767,602	898,675
Total interest expenses	114,869,171	118,783,744	125,487,671	132,580,099
Net interest income	82,460,840	60,933,782	96,874,779	74,430,959

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8. NET FEE AND COMMISSION INCOME

Accounting policy

The Bank/Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income are recognised when the service is performed. Fees earned for the provision of services over a period of time are accrued over that period.

8.1 Fee and commission income

	Bank		Group	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Loans	1,271,909	1,312,823	1,271,909	1,312,823
Cards	1,600,975	905,504	1,600,975	905,504
Trade and remittances	1,361,782	1,030,386	1,361,782	1,030,386
Investment banking	93,339	15,462	93,339	15,462
Deposits	2,883,922	2,622,060	2,883,922	2,622,060
Guarantees	716,185	612,768	716,185	612,768
Others	340,056	224,823	1,717,024	1,317,262
Total	8,268,168	6,723,826	9,645,136	7,816,265

8.2 Fee and commission expenses

	Bank		Group	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Cards	333,087	267,515	333,087	267,515
Trade and remittances	654	1,322	654	1,322
Investment banking	43,084	33,909	43,084	33,909
Guarantees	1,643	1,985	1,643	1,985
Others	219,318	177,791	219,318	177,791
Total	597,786	482,522	597,786	482,522
Net fee and commission income	7,670,382	6,241,304	9,047,350	7,333,743

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9. NET GAIN/(LOSS) FROM TRADING

Accounting policy

Net gains/(losses) from trading comprises foreign exchange gain(s) or losses arising from trading activities, realised gains or losses from investment in equities and fixed income securities classified as "Financial Assets – at fair value through profit or loss" and unrealised gains and losses due to changes in fair value of such instruments.

Gains and losses arising from changes in fair value of the said instruments are recognised in the Income Statement in the period in which they arise and derivative financial instruments are fair value at each reporting date.

		Bank		Group	
For the year ended 31 December	**Note**	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
Net gain/(loss) from trading					
Gain/(loss) from trading	9.1	(830,479)	3,729,148	(693,058)	3,925,288
Net fair value gain/(loss)	9.2	(514,550)	(1,140,027)	(514,550)	(1,140,027)
Total		(1,345,029)	2,589,121	(1,207,608)	2,785,261

9.1 Gain/(loss) from trading

	Bank		Group	
For the year ended 31 December	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
Foreign exchange	(965,361)	3,311,844	(965,361)	3,311,844
Government Securities (Treasury Bills and Treasury Bonds)	143,459	336,495	143,459	336,495
Equities	(8,577)	68,310	128,844	264,450
Debt securities	–	12,499	–	12,499
Total	(830,479)	3,729,148	(693,058)	3,925,288

9.2 Net fair value gain/(loss) on financial assets at fair value through profit or loss

	Bank		Group	
For the year ended 31 December	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
Derivatives	(440,500)	(909,653)	(440,500)	(909,653)
Government Securities				
Treasury Bills	(4,074)	(233,867)	(4,074)	(233,867)
Treasury Bonds	(69,976)	(3,785)	(69,976)	(3,785)
Debt securities	–	7,278	–	7,278
Total	(514,550)	(1,140,027)	(514,550)	(1,140,027)

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10. OTHER OPERATING INCOME

Accounting policy

Profit/(loss) from sale of property, plant and equipment

Profit/(loss) from sale of property, plant and equipment is recognised as and when the control of the property, plant and equipment has passed to the other party.

Dividend income from investment

Dividend income is recognised when the Bank's/Group's right to receive the payment is established.

Recovery of bad debts written off

Recovery of amounts once written off as bad debts are recognised, as and when such amount has received.

Net earned premium

Net earned premium refers to the gross written premium less premium ceded to reinsurance and net of any unearned premiums change in reserve unearned, which is more fully described under Note 5.23 to these Financial Statements.

	Bank		Group	
For the year ended 31 December	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
Profit from disposals of property, plant and equipment and right-of-use assets	62,744	39,389	126,830	54,687
Dividend from investment				
Quoted	24,737	3,866	30,986	20,906
Unquoted	143,079	152,118	143,079	152,118
Subsidiaries	1,634,943	732,467	–	–
Recovery of bad debts written off	28,461	30,815	28,461	30,815
Net earned premium	–	–	4,639,833	4,935,106
Others	1,102,706	992,580	1,025,874	1,092,213
Total	2,996,670	1,951,235	5,995,063	6,285,845

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11. IMPAIRMENT CHARGE

Accounting policy

The Bank/Group recognises impairment losses on financial assets by applying the three-stage approach to measure expected credit losses (ECL's) under Sri Lanka Accounting Standard – SLFRS 9 – "Financial Instruments" of which details are more fully given under Note 5.6 – Impairment of financial assets.

Further, the Bank/Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount of such asset through use or sale, as per Sri Lanka Accounting Standard – LKAS 36 – "Impairment of Assets". Details relating hereto are more fully given under Note 5.13 to these Financial Statements.

11.1 Bank

For the year ended 31 December		2021			
	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	17.4	(703)	5,102	–	4,399
Placements with banks	19.2	(31,033)	–	–	(31,033)
Loans and advances to banks	22.2	133,705	–	–	133,705
Loans and advances to other customers	23.2.1	1,637,097	6,457,732	5,187,711	13,282,540
Debt instruments measured at amortised cost	24.2	1,061,847	–	–	1,061,847
Debt instruments at fair value through OCI	26.2	726	–	–	726
Contingent liabilities and commitments	43.3	750	206,330	(186,444)	20,636
Total impairment charge on financial assets		2,802,389	6,669,164	5,001,267	14,472,820
Total impairment charge					14,472,820

For the year ended 31 December		2020			
	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	17.4	625	2,171	–	2,796
Placements with banks	19.2	29,450	–	–	29,450
Loans and advances to banks	22.2	60,561	–	–	60,561
Loans and advances to other customers	23.2.1	1,383,867	2,090,712	8,353,847	11,828,426
Debt instruments measured at amortised cost	24.2	272,621	–	–	272,621
Debt instruments at fair value through OCI	26.2	85	–	–	85
Contingent liabilities and commitments	43.3	(230,787)	(195,888)	(200,090)	(626,765)
Total impairment charge on financial assets		1,516,422	1,896,995	8,153,757	11,567,174
Total impairment charge					11,567,174

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11.2 Group

For the year ended 31 December	Note	2021 Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	17.4	(703)	5,102	–	4,399
Placements with banks	19.2	(31,033)	–	–	(31,033)
Loans and advances to banks	22.2	133,705	–	–	133,705
Loans and advances to other customers	23.2.1	2,006,360	6,212,795	4,644,817	12,863,972
Debt instruments measured at amortised cost	24.2	1,061,847	–	–	1,061,847
Debt instruments at fair value through OCI	26.2	726	–	–	726
Contingent liabilities and commitments	43.3	750	206,330	(186,444)	20,636
Total impairment charge on financial assets		3,171,652	6,424,227	4,458,373	14,054,252
Others					
Loss on disposal of collaterals including write-offs					304,997
Impairment charges for goodwill	31.2				126,209
Total impairment charge					14,485,458

For the year ended 31 December	Note	2020 Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	17.4	625	2,171	–	2,796
Placements with banks	19.2	29,450	–	–	29,450
Loans and advances to banks	22.2	60,561	–	–	60,561
Loans and advances to other customers	23.2.1	1,616,105	3,071,419	12,336,774	17,024,298
Debt instruments measured at amortised cost	24.2	272,621	–	–	272,621
Debt instruments at fair value through OCI	26.2	85	–	–	85
Contingent liabilities and commitments	43.3	(230,787)	(195,888)	(200,090)	(626,765)
Total impairment charge on financial assets		1,748,660	2,877,702	12,136,684	16,763,046
Others					
Loss on disposal of collaterals including write-offs					678,796
Impairment charges on right-of-use assets					36,965
Impairment charges for goodwill	31.2				87,342
Total impairment charge					17,566,149

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12. PERSONNEL EXPENSES

Accounting policy

Personnel expenses include staff salaries, bonus, contribution to defined contribution/benefit plans and other staff-related expenses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus in the event the Bank/the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

		Bank		Group	
For the year ended 31 December	**Note**	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
Salaries, bonus and related expenses		18,603,077	14,440,448	23,449,166	18,288,996
Contribution to defined benefit plan – pension funds	12.1	783,921	2,469,545	783,921	2,469,545
Contribution to defined benefit plan – gratuity	12.2	171,742	115,827	297,601	238,378
Amortisation of prepaid staff cost		953,656	822,340	953,656	822,340
Others		2,259,539	1,874,207	2,259,539	1,874,207
Total		22,771,935	19,722,367	27,743,883	23,693,466

12.1 Contribution to defined benefit plan – Pension funds

The Bank operates two defined benefit pension plans, for the permanent staff members who have joined the Bank prior to 1 January 1996 and after 1 January 1996, which requires contributions to be made to a separately administered funds. The Bank recognises all actuarial gains and losses arising from these pension funds in the Other Comprehensive Income (OCI) and the expenses related to these funds recorded under personnel expenses in the Income Statement. Details of these defined benefit plans are given in "Employee retirement benefit plans" (Note 37.1 and Note 37.2).

		Bank		Group	
For the year ended 31 December	**Note**	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
Net expense recognised in the income statement					
Defined benefit plan – pre 1996 pension trust fund	37.1.3	1,219,509	1,949,053	1,219,509	1,949,053
Defined benefit plan – post 1996 pension fund	37.2.3	(435,588)	520,492	(435,588)	520,492
		783,921	2,469,545	783,921	2,469,545

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12.2 Contribution to defined benefit plan – Gratuity (Note 37.3)

For the year ended 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Net Expense recognised in the income statement				
Past service cost	79,085	–	79,085	–
Current service cost	34,426	60,631	97,356	121,907
Interest cost	58,231	55,196	121,160	116,471
Net expense	171,742	115,827	297,601	238,378

13. OTHER EXPENSES

Accounting policy

Other expenses have been recognised in the Income Statement as they are incurred in the period to which they relate. All expenditure incurred in running of the business and maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement in arriving at the profit of the year.

Depreciation and amortisation methods and rates are as stipulated in the Note 30 (property, plant and equipment and right-of-use assets).

For the year ended 31 December	Note	Bank		Group	
		2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Directors' emoluments		7,436	7,493	15,355	14,785
Auditors' remunerations		12,940	7,911	26,261	19,610
Non-audit fees to auditors		–	–	2,216	4,585
Professional and legal expenses		133,435	181,669	163,716	206,265
Depreciation and amortisation	13.1	5,054,904	4,191,560	5,711,558	4,840,424
Office administration and establishment expenses		7,620,394	6,442,877	9,270,988	7,896,802
Benefits, claims, and underwriting expenditure		–	–	2,951,534	2,576,722
Deposit insurance premium		1,992,415	1,572,696	2,139,069	1,726,053
Others		2,468,054	2,943,529	2,490,474	2,973,519
Total		17,289,578	15,347,735	22,771,171	20,258,765

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13.1 Depreciation and amortisation

For the year ended 31 December	Note	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Depreciation of property, plant and equipment	30	2,308,320	1,936,308	2,605,467	2,214,118
Amortisation of right-of-use asset	30	2,106,844	2,058,629	2,450,170	2,421,043
Depreciation of investment property	29	1,606	1,707	1,606	1,707
Amortisation of intangible assets	31	638,134	194,916	654,315	203,556
Total		5,054,904	4,191,560	5,711,558	4,840,424

14. TAX EXPENSES

Accounting policy

Current 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 taxes. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in Other Comprehensive Income (OCI), in which case it is recognised in OCI.

Accordingly, the provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 24 of 2017 and its amendment Act No. 10 of 2021. Detailed disclosure of accounting policies are given in Note 5.18 to these Financial Statements.

Deferred taxation

Deferred tax is provisioned for using the liability method on temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Detailed disclosure of accounting policies and estimate of deferred tax is more fully available in Note 5.18.2 to the Financial Statements

For the year ended 31 December	Note	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Current year tax expense					
Income tax expense	14.1	6,855,681	7,756,646	10,178,826	9,561,494
Prior years' (over)/under provision		174,406	(513,436)	174,406	(513,436)
Deferred tax charge/(credit)		(708,270)	(191,473)	(1,539,263)	(490,963)
Deferred tax charge/(credit) on income tax rate change		344,640	–	344,640	–
Total tax expense		6,666,457	7,051,737	9,158,609	8,557,095
Effective tax rate (%)		21.9	33.2	24.6	34.7

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14.1 Reconciliation of tax expenses

For the year ended 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Profit before tax for the year	30,386,600	21,226,680	37,246,257	24,647,581
Income tax for the period (accounting profit at applicable tax rate)	7,292,784	5,943,470	8,939,102	6,901,323
Add:				
Tax effect of expenses that are not deductible for tax purposes	7,665,037	7,439,507	10,292,851	11,214,209
(Less):				
Tax effect of expenses that are deductible for tax purposes	(8,102,140)	(5,626,331)	(9,053,127)	(8,554,038)
Income tax expense for the period	6,855,681	7,756,646	10,178,826	9,561,494

14.2 The deferred tax charge/(credit) in the profit/(loss) comprise the following:

For the year ended 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Deferred tax assets	(1,580,036)	(1,333,117)	(2,638,261)	(1,961,432)
Deferred tax liabilities	1,216,406	1,141,644	1,443,638	1,470,469
Deferred tax (credit)/charge to profit/(loss)	(363,630)	(191,473)	(1,194,623)	(490,963)

14.3 The deferred tax charge/(credit) in other comprehensive income comprise the following:

For the year ended 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Retirement benefit	3,110,193	(3,402,368)	3,106,359	(3,374,264)
Revaluation of land and buildings	881,484	1,826,619	917,484	1,840,619
Gain/(loss) from instruments at FVOCI	–	–	(30,075)	–
Deferred Tax Effect on change in income tax rate on the opening balance	(245,293)	–	(245,293)	–
Deferred tax charge/(credit) to OCI	3,746,384	(1,575,749)	3,748,475	(1,533,645)
Net deferred tax for the year	3,382,754	(1,767,222)	2,553,852	(2,024,608)

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14.4 Applicable rates concessions or holidays granted on income tax

	2021 %	2020 %
Domestic operation of the Bank	24	28
On-shore banking operations of the Off-Shore Banking Unit	24	28
Off-shore banking operations of the Off-Shore Banking Unit	24	28
People's Leasing and Finance PLC	24	28
People's Travels (Pvt) Ltd.	24	14
People's Merchant Finance PLC	24	28
People's Micro Finance Limited	24	28
People's Fleet Management Limited	24	28

The tax liabilities of the Group are computed at the above rates except for the following companies which enjoy exemptions and concessions:

14.5 People's Leasing Havelock Properties Limited

Pursuant to the agreement dated 16 December 2010 entered into by People's Leasing Havelock Properties Limited with the Board of Investment under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition, payment and recovery of income tax shall not apply for a period of five years reckoned from the year in which the Company makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations whichever is earliest. The Company is eligible for a 10% concessionary tax rate for a period of two years immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate after the expiration of the 10% concessionary tax period.

15. EARNINGS PER SHARE

15.1 Basic earnings per share

As per Sri Lanka Accounting Standard – LKAS 33 "Earnings per Share", the calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding during the year:

	Bank		Group	
For the year ended 31 December	2021	2020	2021	2020
Net profit attributable to ordinary equity holders (LKR '000)	23,720,143	14,174,943	26,350,975	15,229,858
Weighted-average number of ordinary shares in issue ('000)	1,000	1,000	1,000	1,000
Basic earnings per share (LKR)	23,720	14,175	26,351	15,230

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15.2 Diluted earnings per share

As per Sri Lanka Accounting Standard – LKAS 33 "Earnings per Share", the calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding during the year, after adjustment for the effects of all dilutive potential ordinary shares.

	Bank		Group	
For the year ended 31 December	**2021**	**2020**	**2021**	**2020**
Net profit attributable to ordinary equity holders (LKR '000)	23,720,143	14,174,943	26,350,975	15,229,858
Weighted-average number of ordinary shares in issue ('000)	1,000	1,000	1,000	1,000
Number of ordinary shares in capital pending allotment ('000)	243,040	243,040	243,040	243,040
Total number of shares in issue and pending allotment ('000)	244,040	244,040	244,040	244,040
Diluted earnings per share (LKR)	97	58	108	62

16. MEASUREMENT OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of the financial instruments by category as defined under Sri Lanka Accounting Standard – SLFRS 9 – "Financial Instruments" under the headings of the Statement of Financial Position:

16.1 Bank – 31 December 2021

	2021			
	FVTPL[1]	**FVOCI[2]**	**AC[3]**	**Total**
Assets				
Cash and cash equivalents	–	–	57,538,351	57,538,351
Balances with central banks	–	–	56,717,820	56,717,820
Placements with banks	–	–	–	–
Derivative financial instruments	441,877	–	–	441,877
Financial assets – at fair value through profit or loss	1,558,850	–	–	1,558,850
Financial assets – at amortised cost				
Loans and advances to banks	–	–	10,131,952	10,131,952
Loans and advances to other customers	–	–	1,835,697,108	1,835,697,108
Debt instruments measured at amortised cost	–	–	587,320,182	587,320,182
Financial assets – at fair value through OCI				
Equity instruments at fair value through OCI	–	1,621,375	–	1,621,375
Debt instruments at fair value through OCI	–	9,399,272	–	9,399,272
Total financial assets	2,000,727	11,020,647	2,547,405,413	2,560,426,787

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	FVTPL[1]		AC[3]	Total
Liabilities				
Due to banks	–	–	107,745,916	107,745,916
Derivative financial instruments	1,761,220	–	–	1,761,220
Due to other customers	–	–	2,071,532,612	2,071,532,612
Other borrowings	–	–	241,419,125	241,419,125
Subordinated term debts	–	–	48,861,680	48,861,680
Total financial liabilities	1,761,220	–	2,469,559,333	2,471,320,553

1 Fair Value through Profit or Loss 2 Fair Value through Other Comprehensive Income 3 Amortised Cost

Bank – 31 December 2020

	2020			
	FVTPL[1]	FVOCI[2]	AC[3]	Total
Assets				
Cash and cash equivalents	–	–	71,461,242	71,461,242
Balances with central banks	–	–	14,196,565	14,196,565
Placements with banks	–	–	10,304,422	10,304,422
Derivative financial instruments	97,645	–	–	97,645
Financial assets – at fair value through profit or loss	46,425,027	–	–	46,425,027
Financial assets – at amortised cost				
Loans and advances to banks	–	–	23,610,101	23,610,101
Loans and advances to other customers	–	–	1,635,579,343	1,635,579,343
Debt instruments measured at amortised cost	–	–	357,107,701	357,107,701
Financial assets – at fair value through OCI				
Equity instruments at fair value through OCI	–	1,937,778	–	1,937,778
Debt instruments at fair value through OCI	–	2,632,231	–	2,632,231
Total financial assets	46,522,672	4,570,009	2,112,259,374	2,163,352,055

	FVTPL[1]		AC[3]	Total
Liabilities				
Due to banks	–	–	164,489,623	164,489,623
Derivative financial instruments	976,486	–	–	976,486
Due to other customers	–	–	1,835,099,456	1,835,099,456
Other borrowings	–	–	36,362,434	36,362,434
Subordinated term debts	–	–	43,557,696	43,557,696
Total financial liabilities	976,486	–	2,079,509,209	2,080,485,695

1 Fair Value through Profit or Loss 2 Fair Value through Other Comprehensive Income 3 Amortised Cost

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16.2 Group – 31 December 2021

	2021			
	FVTPL[1]	FVOCI[2]	AC[3]	Total
Assets				
Cash and cash equivalents	–	–	58,836,831	58,836,831
Balances with central banks	–	–	56,717,820	56,717,820
Placements with banks	–	–	3,325,726	3,325,726
Derivative financial instruments	441,877	–	–	441,877
Financial assets – at fair value through profit or loss	2,553,546	–	–	2,553,546
Financial assets – at amortised cost				
Loans and advances to banks	–	–	13,398,055	13,398,055
Loans and advances to other customers	–	–	1,990,689,061	1,990,689,061
Debt instruments measured at amortised cost	–	–	600,079,625	600,079,625
Financial assets – at fair value through OCI				
Equity instruments at fair value through OCI	–	1,889,144	–	1,889,144
Debt instruments at fair value through OCI	–	10,596,723	–	10,596,723
Total financial assets	2,995,423	12,485,867	2,723,047,118	2,738,528,408

	FVTPL[1]	AC[3]	Total
Liabilities			
Due to banks	–	122,397,825	122,397,825
Derivative financial instruments	1,761,220	–	1,761,220
Due to other customers	–	2,168,674,742	2,168,674,742
Other borrowings	–	241,419,125	241,419,125
Subordinated term debts	–	65,560,465	65,560,465
Total financial liabilities	1,761,220	2,598,052,157	2,599,813,377

[1] *Fair Value through Profit or Loss* [2] *Fair Value through Other Comprehensive Income* [3] *Amortised Cost*

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Group – 31 December 2020

	2020			
	FVTPL[1]	FVOCI[2]	AC[3]	Total
Assets				
Cash and cash equivalents	–	–	72,899,208	72,899,208
Balances with central banks	–	–	14,196,565	14,196,565
Placements with banks	–	–	13,910,824	13,910,824
Derivative financial instruments	97,645	–	–	97,645
Financial assets – at fair value through profit or loss	52,728,589	–	–	52,728,589
Financial assets – at amortised cost				
Loans and advances to banks	–	–	23,622,700	23,622,700
Loans and advances to other customers	–	–	1,776,231,315	1,776,231,315
Debt instruments measured at amortised cost	–	–	365,900,452	365,900,452
Financial assets at fair value through OCI				
Equity instruments at fair value through OCI	–	1,778,585	–	1,778,585
Debt instruments at fair value through OCI	–	2,899,609	–	2,899,609
Total financial assets	52,826,234	4,678,194	2,266,761,064	2,324,265,492

	FVTPL[1]		AC[3]	Total
Liabilities				
Due to banks	–	–	172,439,795	172,439,795
Derivative financial instruments	976,486	–	–	976,486
Due to other customers	–	–	1,935,194,040	1,935,194,040
Other borrowings	–	–	36,362,434	36,362,434
Subordinated term debts	–	–	56,868,035	56,868,035
Total financial liabilities	976,486	–	2,200,864,304	2,201,840,790

[1] *Fair value through Profit or Loss* [2] *Fair value through Other Comprehensive Income* [3] *Amortised Cost*

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17. CASH AND CASH EQUIVALENTS

Accounting policy

Cash and cash equivalents include cash in hand, balances with banks, money at call and at short notice and Standing Lending Facility of the Central Bank of Sri Lanka. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

17.1 Cash

For the year ended 31 December	Note	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Cash in hand		54,347,698	45,786,256	55,406,177	46,636,946

17.2 Cash equivalents

Cash at banks		3,198,756	12,077,002	3,438,757	12,664,278
Money at call and short notice		–	6,000,748	–	6,000,748
CBSL Standing Lending Facility		–	7,600,940	–	7,600,940
		3,198,756	25,678,690	3,438,757	26,265,966
Less: Allowance for expected credit losses	17.4	(8,103)	(3,704)	(8,103)	(3,704)
		3,190,653	25,674,986	3,430,654	26,262,262
Total cash and cash equivalents		57,538,351	71,461,242	58,836,831	72,899,208

17.3 Analysis of cash equivalents based on exposure to credit risk

Bank

As at 31 December	2021 Stage 1 LKR '000	2021 Stage 2 LKR '000	2021 Stage 3 LKR '000	2021 Total LKR '000
Cash at banks	2,920,762	277,994	–	3,198,756
Total	2,920,762	277,994	–	3,198,756

As at 31 December	2020 Stage 1 LKR '000	2020 Stage 2 LKR '000	2020 Stage 3 LKR '000	2020 Total LKR '000
Cash at banks	11,970,198	106,804	–	12,077,002
Money at call and short notice	6,000,748	–	–	6,000,748
CBSL Standing Lending Facility	7,600,940	–	–	7,600,940
Total	25,571,886	106,804	–	25,678,690

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Group

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash at banks	3,160,763	277,994	–	3,438,757
Total	3,160,763	277,994	–	3,438,757

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash at banks	12,557,474	106,804	–	12,664,278
Money at call and short notice	6,000,748	–	–	6,000,748
CBSL Standing Lending Facility	7,600,940	–	–	7,600,940
Total	26,159,162	106,804	–	26,265966

17.4 Allowance for expected credit losses – Cash equivalents

Bank and Group

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	888	2,816	–	3,704
Gross charge/(reversal) for the year	(703)	5,102	–	4,399
ECL allowance as at 31 December	184	7,918	–	8,103

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	263	645	–	908
Gross charge/(reversal) for the year	625	2,171	–	2,796
ECL allowance as at 31 December	888	2,816	–	3,704

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18. BALANCES WITH CENTRAL BANK OF SRI LANKA

Accounting policy

The balance with the Central Bank of Sri Lanka in the Statutory Cash Reserve is 4.0% (2.0% in 2020) of rupee denominated deposit liabilities. This is a non-interest-bearing balance. A similar reserve is not required in respect of foreign currency denominated deposits liabilities in the Domestic Banking Unit and deposit liabilities in the Off-Shore Banking Unit.

This balance is carried at amortised cost in the Statement of Financial Position.

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Statutory balances with Central Bank of Sri Lanka (Stage 1)	56,717,820	14,196,565	56,717,820	14,196,565
	56,717,820	14,196,565	56,717,820	14,196,565

19. PLACEMENTS WITH BANKS

Accounting policy

Placements with banks include Money Market placements and fixed deposits that are subject to an insignificant risk of changes in the fair value and are used by the Bank/Group in managing its short-term commitments. These balances are carried at amortised cost in the Statement of Financial Position.

		Bank		Group	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Placements		–	10,335,455	–	10,335,455
Fixed deposits		–	–	3,325,726	3,606,402
		–	10,335,455	3,325,726	13,941,857
Less: Allowance for expected credit losses	19.2	–	(31,033)	–	(31,033)
Total		–	10,304,422	3,325,726	13,910,824

19.1 Analysis of placements with banks based on exposure to credit risk

Bank

	2020			
As at 31 December	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Placements	10,335,455	–	–	10,335,455
Total	10,335,455	–	–	10,335,455

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Group

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Fixed deposits	3,325,726	–	–	3,325,726
Total	3,325,726	–	–	3,325,726

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Placements	10,335,455	–	–	10,335,455
Fixed deposits	3,606,402	–	–	3,606,402
Total	13,941,857	–	–	13,941,857

19.2 Allowance for expected credit losses – Placements with banks

Bank and Group

	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	31,033	–	–	31,033
Gross charge/(reversal) for the year	(31,033)			(31,033)
ECL allowance as at 31 December	–	–	–	–

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	1,583	–	–	1,583
Gross charge/(reversal) for the year	29,450	–	–	29,450
ECL allowance as at 31 December	31,033	–	–	31,033

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20. DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policy

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable, and typically comprises instruments such as swaps, forward rate agreements, futures, and options.

All derivatives are recognised in the Statement of Financial Position at fair value and are classified as fair value through profit or loss except where they have been designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is remeasured at fair value throughout the life of the contract.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The table below depicts the fair values of derivative financial instruments of the Bank/Group, recorded as assets or liabilities, together with their notional amounts.

20.1 Foreign currency derivatives – Assets

	Bank				Group			
	2021		2020		2021		2020	
	Assets LKR '000	Notional amount LKR '000	Assets LKR '000	Notional amount LKR '000	Assets LKR '000	Notional amount LKR '000	Assets LKR '000	Notional amount LKR '000
Currency swaps								
Sales	201,323	13,289,436	57,471	12,054,900	201,323	13,289,436	57,471	12,054,900
Purchases	240,502	25,012,263	34,396	10,410,093	240,502	25,012,263	34,396	10,410,093
Forward foreign exchange contracts								
Sales	1	3,490	1,174	1,639,285	1	3,490	1,174	1,639,285
Purchases	51	44,608	4,604	372,852	51	44,608	4,604	372,852
Total	441,877	38,349,797	97,645	24,477,130	441,877	38,349,797	97,645	24,477,130

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20.2 Foreign currency derivatives – Liabilities

	Bank				Group			
	2021		2020		2021		2020	
	Liability LKR '000	Notional amount LKR '000	Liability LKR '000	Notional amount LKR '000	Liability LKR '000	Notional amount LKR '000	Liability LKR '000	Notional amount LKR '000
Currency swaps								
Sales	1,759,061	68,743,157	934,215	86,078,566	1,759,061	68,743,157	934,215	86,078,566
Purchases	1,395	1,166,559	11,878	4,610,694	1,395	1,166,559	11,878	4,610,694
Forward foreign exchange contracts								
Sales	693	263,697	28,371	3,643,693	693	263,697	28,371	3,643,693
Purchases	71	122,759	2,022	265,105	71	122,759	2,022	265,105
Total	1,761,220	70,296,172	976,486	94,598,058	1,761,220	70,296,172	976,486	94,598,058

21. FINANCIAL ASSETS – AT FAIR VALUE THROUGH PROFIT OR LOSS

Accounting policy

Financial assets – At fair value through profit or loss include debt securities and equities that have been acquired principally for the purpose of trading and are measured at fair value. Details are more fully given in Note 5.5.3. to these Financial Statements.

		Bank		Group	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Sri Lanka Government Securities	21.1	1,276,679	46,162,420	1,276,679	46,162,420
Equity securities – Quoted	21.2	253,517	226,119	389,158	249,835
Unit Trusts	21.3	–	–	859,055	6,279,846
Debt securities		28,654	36,488	28,654	36,488
Total		1,558,850	46,425,027	2,553,546	52,728,589

21.1 Sri Lanka Government Securities

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Treasury Bills	272,649	44,998,788	272,649	44,998,788
Treasury Bonds	1,004,030	1,163,632	1,004,030	1,163,632
Total	1,276,679	46,162,420	1,276,679	46,162,420

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21.2 Equity securities

21.2.1 Equity securities – Bank

	Number of shares	Cost 2021 LKR '000	Market value as at 31 December 2021 LKR '000	Number of shares	Cost 2020 LKR '000	Market value as at 31 December 2020 LKR '000
Food and Beverage						
Nestle Lanka PLC	16,000	20,000	19,448	–	–	–
Distilleries Company of Sri Lanka PLC	1,200,000	21,000	20,400	–	–	–
Ceylon Tobacco Company PLC	10,000	9,000	8,780	–	–	–
Capital goods						
ACL Cables PLC	–	–	–	331,610	15,798	25,401
Access Engineering PLC	393,940	9,401	12,567	68,940	1,655	1,696
Hemas Holdings PLC	755,504	56,093	50,543	755,504	56,093	75,475
Aitken Spence PLC	–	–	–	330,000	15,160	19,074
Telecommunication services						
Dialog Axiata PLC	1,000,000	10,850	10,900	2,000,000	21,750	24,800
Retailing						
John Keells Holdings PLC	200,000	28,688	30,000	18,137	2,377	2,713
Materials						
Chevron Lubricants Lanka PLC	225,000	25,625	25,425	–	–	–
Utilities						
Windforce PLC	1,100,000	20,020	20,020	–	–	–
Vallibel Power Erathna PLC	998,142	7,386	8,584	–	–	–
LVL Energy Fund PLC	–	–	–	1,305,979	12,608	13,321
Consumer Durable						
Teejay Lanka PLC	250,000	7,467	11,100	300,000	8,960	11,400
Health care						
Asiri Hospital Holdings PLC	1,100,000	22,311	35,750	1,514,157	30,303	52,239
Total value of the quoted equity securities		237,839	253,517		164,703	226,119

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21.2.2 Equity securities – Group

	Number of shares	Cost 2021 LKR '000	Market value as at 31 December 2021 LKR '000	Number of shares	Cost 2020 LKR '000	Market value as at 31 December 2020 LKR '000
Food and Beverage						
Nestle Lanka PLC	16,000	20,000	19,448	–	–	–
Distilleries Company of Sri Lanka PLC	1,200,000	21,000	20,400	–	–	–
Ceylon Tobacco Company PLC	10,000	9,000	8,780	–	–	–
Capital goods						
ACL Cables PLC	–	–	–	331,610	15,798	25,401
Hayleys PLC	200,000	14,157	13,380	–	–	–
Access Engineering PLC	393,940	9,401	12,567	68,940	1,655	1,696
Hemas Holdings PLC	755,504	56,093	50,543	755,504	56,093	75,475
Aitken Spence PLC	–	–	–	330,000	15,160	19,074
Telecommunication services						
Dialog Axiata PLC	1,000,000	10,850	10,900	2,000,000	21,750	24,800
Retailing						
John Keells Holdings PLC	200,000	28,688	30,000	18,137	2,377	2,713
Materials						
Chevron Lubricants Lanka PLC	225,000	25,625	25,425	–	–	–
Utilities						
Windforce PLC	1,100,000.00	20,020.00	20,020.00	–	–	–
Vallibel Power Erathna PLC	998,142.00	7,386.25	8,584.02	–	–	–
LVL Energy Fund PLC	–	–	–	1305979	12607.6005	13320.9858
Banks, finance and insurance						
Hatton National Bank PLC	–	–	–	75556	9,627	9,557
Commercial Bank of Ceylon PLC	–	–	–	175,000	14,334	14,158
Consumer Durable						
Teejay Lanka PLC	250,000	7,467	11,100	300,000	8,960	11,400
Health care						
Asiri Hospital Holdings PLC	1,100,000	22,311	35,750	1,514,157	30,303	52,239

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	Number of shares	Cost 2021 LKR '000	Market value as at 31 December 2021 LKR '000	Number of shares	Cost 2020 LKR '000	Market value as at 31 December 2020 LKR '000
Shares Listed In Bangladesh						
British American Tobacco Bangladesh	9,000	13,908	13,375	–	–	–
Berger Paints Bangladesh Ltd.	2,000	8,416	8,258	–	–	–
City Bank Ltd.	100,000	6,821	6,383	–	–	–
Dutch Bangla Bank Ltd.	50,000	9,611	9,131	–	–	–
Eastern Bank Ltd.	50,000	4,583	4,501	–	–	–
Grameenphone Limited	17,300	15,303	14,138	–	–	–
Linde (BD) Ltd.	400	1,460	1,478	–	–	–
Marico Bangladesh Ltd.	3,350	18,541	18,024	–	–	–
Reckitt Benckiser	195	2,657	2,613	–	–	–
Renata Ltd.	4,240	13,797	13,805	–	–	–
Square Pharmaceuticals Ltd.	30,000	16,584	15,032	–	–	–
Summit Power	150,000	16,818	13,643	–	–	–
Walton Hi-Tech Industries	700	1,950	1,880	–	–	–
Total value of quoted equity securities		382,445	389,158		188,664	249,835

21.3 Unit trust

	Number of shares	Cost 2021 LKR '000	Market value as at 31 December 2021 LKR '000	Number of shares	Cost 2020 LKR '000	Market value as at 31 December 2020 LKR '000
NDB Wealth Money Market Plus Fund	6,027,382	2,826,228	149,361	122,700,474	2,826,228	2,877,436
Guardian Money Market Fund	–	–	–	17,489,404	346,248	353,530
Softlogic Money Market Fund	–	–	–	490,240	50,000	50,831
CAL Investment	16,805,463	1,980,197	355,856	101,244,622	1,980,197	1,998,559
JB Vantage Money Market Fund	12,041,494	990,074	353,838	36,429,614	990,074	999,490
Total		5,796,499	859,055		6,192,747	6,279,846

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22. LOANS AND ADVANCES TO BANKS

Accounting policy

Loans and advances to banks include Sri Lanka Development Bonds, Restructuring Bonds, and Securities purchased under resale agreements.

The Group measures loans and advances to banks at amortised cost since the said instruments qualify both contractual cash flow assessment and business model assessment which has been described in Note 5.5.1 to these Financial Statements.

		Bank		Group	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Sri Lanka Development Bonds		2,678,181	4,771,213	2,678,181	4,771,213
Restructuring Bond	22.3	7,689,150	7,689,150	7,689,150	7,689,150
Securities purchased under resale agreements		–	11,251,412	3,266,103	11,264,011
Total		10,367,331	23,711,775	13,633,434	23,724,374
Less: Allowance for expected credit losses	22.2	(235,379)	(101,674)	(235,379)	(101,674)
		10,131,952	23,610,101	13,398,055	23,622,700

22.1 Analysis of loans and advances to banks based on exposure to credit risk

Bank

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Development Bonds	2,678,181	–	–	2,678,181
Restructuring Bond	7,689,150	–	–	7,689,150
Total	10,367,331	–	–	10,367,331

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Development Bonds	4,771,213	–	–	4,771,213
Restructuring Bond	7,689,150	–	–	7,689,150
Securities purchased under resale agreements	11,251,412	–	–	11,251,412
Total	23,711,775	–	–	23,711,775

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Group

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Development Bonds	2,678,181	–	–	2,678,181
Restructuring Bond	7,689,150	–	–	7,689,150
Securities purchased under resale agreements	3,266,103	–	–	3,266,103
Total	13,633,434	–	–	13,633,434

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Development Bonds	4,771,213	–	–	4,771,213
Restructuring Bond	7,689,150	–	–	7,689,150
Securities purchased under resale agreements	11,264,011	–	–	11,264,011
Total	23,724,374	–	–	23,724,374

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22.2 Allowance for expected credit losses/Impairment losses – Loans and advances to banks

Bank and Group

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2021	101,674	–	–	101,674
Gross charge/(reversal) for the year	133,705	–	–	133,705
ECL allowance as at 31 December 2021	235,379	–	–	235,379

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2020	41,113	–	–	41,113
Gross charge/(reversal) for the year	60,561	–	–	60,561
ECL allowance as at 31 December 2020	101,674	–	–	101,674

22.3 Government of Sri Lanka Restructuring Bonds

22.3.a In April 1993, the Bank received restructuring bonds amounting to LKR 10,541 Mn., from the Government of Sri Lanka (GOSL) for the following purposes:

	LKR Mn.	
(i)	1,152.0	To achieve the capital adequacy requirement in accordance with CBSL Guidelines
(ii)	1,700.5	To write-off loans granted to Sri Lanka State Plantations Corporation and Paddy Marketing Board for LKR 1,467 Mn. and LKR 233.5 Mn. respectively
(iii)	4,355.0	To finance pension liabilities
(iv)	3,231.0	To provide for loan loss provision
(v)	102.5	For loans to be transferred to Special Recovery Unit (RACA)
	10,541.0	

22.3.b The above value of Bonds granted by GOSL effectively relates to accounting entries that were booked to clear carrying values of advances granted under State recommendation, which were deemed as irrecoverable.

22.3.c The agreement underlying the granting of these Bonds, stipulates the following:

a. A tenor of 30 years, where the Bonds could be redeemed through the recovery of any of the specific loan losses for which the Bonds were issued.

   As at statement of financial position date, no recoveries have been made of those specific loan losses.

b. As per the initial agreement an interest rate of 12% p.a. would apply, with half yearly payment of interest.

c. A value of 25% of income derived from (b) above would be refunded to the GOSL annually.

22.3.d As indicated in 22.3.a., a sum of LKR 4,355 Mn. of this tranche of Bonds was assigned to the Pension Fund (LKR 3,218 Mn.) and to the W & OP Fund (LKR 1,137 Mn.).

Accordingly, the carrying balance of Bonds reflected on the Statement of Financial Position does not include the value assigned to the Pension Fund, which is managed as an independent Trust Fund.

22.3.e The financial implications of these Bonds in year 2021 are as follows:

a. A value of LKR 7,689 Mn. is reflected on the Statement of Financial Position as loans and advances to Banks.

b. A value of LKR 879 Mn. is received during the year as income and is reflected under Interest Income.

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23. LOANS AND ADVANCES TO OTHER CUSTOMERS

Accounting policy

Loans and advances to other customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- The Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the Bank, upon initial recognition, designates as fair value through other comprehensive income (OCI)
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration

The Bank/Group measures loans and advances to other customers at amortised cost since both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order 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.

		Bank		Group	
As at 31 December	**Note**	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
Gross loans and advances to other customers	23.1	1,936,974,136	1,723,465,943	2,103,642,165	1,876,212,559
Stage 1		1,575,824,249	1,451,654,411	1,685,039,591	1,524,043,835
Stage 2		207,799,398	137,901,961	235,433,619	173,617,030
Stage 3		153,350,489	133,909,571	183,168,955	178,551,694
Less:					
Allowance for expected credit losses	23.2	(101,277,028)	(87,886,600)	(112,953,104)	(99,981,244)
Stage 1		(8,056,985)	(6,419,888)	(9,316,194)	(7,309,834)
Stage 2		(9,990,853)	(3,533,121)	(11,462,797)	(5,250,002)
Stage 3		(83,229,190)	(77,933,591)	(92,174,113)	(87,421,408)
Net loans and advances		1,835,697,108	1,635,579,343	1,990,689,061	1,776,231,315

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23.1 Analysis of gross loans and advances

As at 31 December	Note	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
By product					
Bills of exchange		2,213,763	1,001,619	2,213,763	1,001,619
Overdrafts		392,876,794	258,281,894	392,420,308	257,950,664
Trade finance		298,738,212	250,894,973	298,738,212	250,894,973
Credit cards		4,303,245	3,067,432	4,303,245	3,067,432
Pawning		194,769,226	174,814,192	194,769,226	174,814,192
Staff loans	23.1.1	24,983,498	23,958,937	25,646,690	24,785,370
Short-term loans		180,408,077	259,527,250	180,408,077	259,527,250
Long-term loans		838,279,957	751,538,010	911,439,456	813,173,316
Lease rental receivable		–	–	79,230,187	81,891,112
Others		401,364	381,636	14,473,001	9,106,631
Gross total		1,936,974,136	1,723,465,943	2,103,642,165	1,876,212,559
By currency					
Sri Lankan rupee		1,556,592,444	1,293,932,661	1,717,816,147	1,443,062,842
United States dollar		377,230,239	425,100,996	377,230,239	425,100,996
Great Britain pound		36,523	45,820	36,523	45,820
Others		3,114,929	4,386,466	8,559,255	8,002,901
Gross total		1,936,974,136	1,723,465,943	2,103,642,165	1,876,212,559
By industry					
Agriculture, forestry and fishing		161,150,394	136,609,009	192,922,106	166,308,552
Manufacturing		35,205,619	33,844,343	44,932,244	44,604,569
Tourism		34,571,031	36,794,901	37,919,275	40,690,756
Transport and storage		43,326,667	63,488,966	77,759,704	97,382,327
Construction		407,612,306	386,330,264	419,942,260	396,691,973
Infrastructure development		404,241,424	375,810,596	404,241,424	375,810,596
Wholesale and retail trade		154,280,036	126,296,983	174,047,763	143,257,606
Professional, scientific, and technical activities		52,075,671	45,247,609	52,075,671	54,042,527
Financial services		25,136,683	22,648,245	40,045,319	31,887,446
Consumption		169,404,131	129,358,898	194,735,322	137,207,839
Others		449,970,174	367,036,129	465,021,077	388,328,368
Gross total		1,936,974,136	1,723,465,943	2,103,642,165	1,876,212,559

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23.1.1 Staff loans (net)

As at 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Staff loans	35,678,083	34,389,293	36,341,275	35,215,726
(Less): Allowance for day one difference	(10,694,585)	(10,430,356)	(10,694,585)	(10,430,356)
Net staff loans	24,983,498	23,958,937	25,646,690	24,785,370

23.2 Movement in total impairment allowance for loans and receivables

As at 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Opening balance as at 1 January	87,886,600	76,330,377	99,981,244	83,229,149
Net Charge for the year	13,282,540	11,828,426	12,863,972	17,024,298
Write-off during the year	(187,681)	(412,843)	(187,681)	(412,843)
Exchange rate variance on foreign currency impairment	295,569	140,640	295,569	140,640
Closing balance as at 31 December	101,277,028	87,886,600	112,953,104	99,981,244

23.2.1 Movement in allowance for expected credit loss [ECL] based on exposure to credit risk

Bank

	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	6,419,888	3,533,121	77,933,591	87,886,600
Net charge/(reversal) for the year	1,637,097	6,457,732	5,187,711	13,282,540
Amounts written off	–	–	(187,681)	(187,681)
Exchange rate variance on foreign currency impairment	–	–	295,569	295,569
Closing balance as at 31 December	8,056,985	9,990,853	83,229,190	101,277,028

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	5,036,021	1,442,409	69,851,947	76,330,377
Net charge/(reversal) for the year	1,383,867	2,090,712	8,353,847	11,828,426
Amounts written off	–	–	(412,843)	(412,843)
Exchange rate variance on foreign currency impairment	–	–	140,640	140,640
Closing balance as at 31 December	6,419,888	3,533,121	77,933,591	87,886,600

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Group

	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	7,309,834	5,250,002	87,421,408	99,981,244
Net charge/(reversal) for the year	2,006,360	6,212,795	4,644,817	12,863,972
Amounts written off	–	–	(187,681)	(187,681)
Exchange rate variance on foreign currency impairment	–	–	295,569	295,569
Closing balance as at 31 December	9,316,194	11,462,797	92,174,113	112,953,104

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	5,693,729	2,178,583	75,356,837	83,229,149
Net charge/(reversal) for the year	1,616,105	3,071,419	12,336,774	17,024,298
Amounts written off	–	–	(412,843)	(412,843)
Exchange rate variance on foreign currency Impairment	–	–	140,640	140,640
Closing balance as at 31 December	7,309,834	5,250,002	87,421,408	99,981,244

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24. DEBT INSTRUMENTS MEASURED AT AMORTISED COST

Accounting policy

Investments in debt instruments are measured at amortised cost where they have:

- Contractual terms that give rise to cash flows on pre-specified dates, that represent solely payments of principal and/or interest on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by holding such assets to collect contractual cash flows.

		Bank		Group	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Sri Lanka Government Securities					
Treasury Bills		–	16,687,743	9,940,432	22,935,324
Treasury Bonds		573,470,829	327,354,936	575,643,705	329,077,893
International Sovereign Bonds		15,183,821	13,337,643	15,183,821	13,337,643
Investments in preference shares		–	–	646,135	669,886
Investments in commercial papers		–	–	–	152,327
Total		588,654,650	357,380,322	601,414,093	366,173,073
Less: Allowance for expected credit losses	24.2	(1,334,468)	(272,621)	(1,334,468)	(272,621)
		587,320,182	357,107,701	600,079,625	365,900,452

24.1 Analysis of debt instruments measured at amortised cost based on exposure to credit risk

Bank

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities				
Treasury Bonds	573,470,829	–	–	573,470,829
International Sovereign Bonds	15,183,821			15,183,821
Total	588,654,650	–	–	588,654,650

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities				
Treasury Bonds	16,687,743	–	–	16,687,743
Treasury Bonds	327,354,936	–	–	327,354,936
International Sovereign Bonds	13,337,643			13,337,643
Total	357,380,322	–	–	357,380,322

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Group

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities				
Treasury Bonds	9,940,432	–	–	9,940,432
Treasury Bonds	575,643,705	–	–	575,643,705
International Sovereign Bonds	15,183,821	–	–	15,183,821
Investments in Preference Shares	646,135	–	–	646,135
Total	601,414,093	–	–	601,414,093

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities				
Treasury Bonds	22,935,324	–	–	22,935,324
Treasury Bonds	329,077,893	–	–	329,077,893
International Sovereign Bonds	13,337,643	–	–	13,337,643
Investments in Preference Shares	669,886	–	–	669,886
Investments in Commercial Papers	152,327	–	–	152,327
Total	366,173,073	–	–	366,173,073

24.2 Allowance for expected credit losses – Debt instruments measured at amortised cost

Bank and Group

	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	272,621	–	–	272,621
Gross charge/(reversal) for the year	1,061,847	–	–	1,061,847
ECL allowance as at 31 December	1,334,468	–	–	1,334,468

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	–	–	–	–
Gross charge/(reversal) for the year	272,621	–	–	272,621
ECL allowance as at 31 December	272,621	–	–	272,621

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25. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OCI

Accounting policy

Investment in equity instruments that are neither held for trading nor contingent consideration recognised by the Group in a business combination to which Sri Lanka Accounting Standard – SLFRS 3 – "Business Combinations" applies, are measured at fair value through other comprehensive income. Detailed accounting policies are more fully set out in Note 5.5.2 to these Financial Statements.

		Bank		Group	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Equity securities – Unquoted	25.1	403,168	815,900	403,178	815,910
Equity securities – Quoted	25.2	1,218,207	1,121,878	1,485,966	962,675
Total		1,621,375	1,937,778	1,889,144	1,778,585

25.1 Equity securities – Unquoted

25.1.1 Bank

Name	Number of shares 31.12.2021	Fair value as at 31.12.2021 LKR '000	Cost as at 31.12.2021 LKR '000	Number of shares 31.12.2020	Fair value as at 31.12.2020 LKR '000	Cost as at 31.12.2020 LKR '000
Credit Information Bureau of Sri Lanka	47,400	–	50,715	47,400	–	50,715
Society for Worldwide Inter Bank Financial Telecommunication	14	1,168	1,168	14	1,168	1,168
Regional Development Bank	16,448,448	162,064	162,300	16,448,448	612,476	162,300
Lanka Financial Services Bureau	500,000	–	5,000	500,000	–	5,000
Fitch Rating Lanka Ltd.	62,500	625	625	62,500	625	625
Lanka Clear (Pvt) Ltd.	2,126,213	25,620	25,620	2,126,213	25,620	25,620
People's Merchant Finance PLC – Preference Shares	1,000,000	10,000	10,000	1,000,000	10,000	10,000
National Equity Fund	5,112,735	203,691	175,469	5,112,735	166,011	175,469
Total		403,168	430,897		815,900	430,897

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25.1.2 Group

Name	Number of shares 31.12.2021	Fair value as at 31.12.2021 LKR '000	Cost as at 31.12.2021 LKR '000	Number of shares 31.12.2020	Fair value as at 31.12.2020 LKR '000	Cost as at 31.12.2020 LKR '000
Credit Information Bureau of Sri Lanka	47,500	10	50,725	47,500	10	50,725
Society for Worldwide Inter Bank Financial Telecommunication	14	1,168	1,168	14	1,168	1,168
Regional Development Bank	16,448,448	162,064	162,300	16,448,448	612,476	162,300
Lanka Financial Services Bureau	500,000	–	5,000	500,000	–	5,000
Fitch Rating Lanka Ltd.	62,500	625	625	62,500	625	625
Lanka Clear (Pvt) Ltd.	2,126,213	25,620	25,620	2,126,213	25,620	25,620
People's Merchant Finance PLC – Preference Shares	1,000,000	10,000	10,000	1,000,000	10,000	10,000
National Equity Fund	5,112,735	203,691	175,469	5,112,735	166,011	175,469
Total		403,178	430,907		815,910	430,907

25.2 Equity securities - Quoted

25.2.1 Bank

Name	Number of shares 31.12.2021	Fair value as at 31.12.2021 LKR '000	Cost as at 31.12.2021 LKR '000	Number of shares 31.12.2020	Fair value as at 31.12.2020 LKR '000	Cost as at 31.12.2020 LKR '000
Overseas Reality (Ceylon) PLC	30,538,203	586,333	518,963	30,538,203	439,750	518,963
The Finance PLC	2,080,400	–	83,400	2,080,400	–	83,400
People's Merchant Finance PLC – Ordinary Shares	33,856,246	230,222	311,477	33,856,246	291,164	311,477
The Lanka Hospitals Corporation PLC	7,316,042	401,652	307,274	7,316,042	390,677	307,274
United Motors Lanka PLC	–	–	–	3,426	271	305
C T Land Development PLC	–	–	–	555	16	24
Total		1,218,207	1,221,114		1,121,878	1,221,443

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25.2.2 Group

Name	Number of shares 31.12.2021	Fair value as at 31.12.2021 LKR '000	Cost as at 31.12.2021 LKR '000	Number of shares 31.12.2020	Fair value as at 31.12.2020 LKR '000	Cost as at 31.12.2020 LKR '000
Overseas Reality (Ceylon) PLC	30,538,203	586,333	518,963	30,538,203	439,750	518,963
The Finance PLC	2,080,400	–	83,400	2,080,400	–	83,400
Sanasa Development Bank PLC	2,271,260	97,664	203,382	2,094,012	131,961	203,382
The Lanka Hospitals Corporation PLC	7,316,042	401,652	307,274	7,316,042	390,677	307,274
People`s Merchant Finance PLC - Ordinary Shares	58,870,248	400,317	423,866	–	–	–
United Motors Lanka PLC	–	–	–	3,426	271	305
C T Land Development PLC	–	–	–	555	16	24
Total		1,485,966	1,536,885		962,675	1,113,348

26. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OCI

Accounting policy

Investments in debt instruments are measured at fair value through Other Comprehensive Income (OCI) where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Detailed policies are given under Note 5.5.2 to these Financial Statements

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Sri Lanka Government Securities	–	318	303,426	267,696
Debt securities	9,399,272	2,631,913	10,293,297	2,631,913
Total	9,399,272	2,632,231	10,596,723	2,899,609

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26.1 Analysis of debt instruments at fair value through OCI based on exposure to credit risk

Bank

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Debt securities	9,103,263	296,009	–	9,399,272
Total	9,103,263	296,009	–	9,399,272

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities	318	–	–	318
Debt securities	2,335,904	296,009	–	2,631,913
Total	2,336,222	296,009	–	2,632,231

Group

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities	303,426	–	–	303,426
Debt securities	9,997,288	296,009	–	10,293,297
Total	10,300,714	296,009	–	10,596,723

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities	267,696	–	–	267,696
Debt securities	2,335,904	296,009	–	2,631,913
Total	2,603,600	296,009	–	2,899,609

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26.2 Allowance for expected credit losses – Debt instruments at fair value through OCI

Bank and Group

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	327	296,009	–	296,336
Gross charge/(reversal) for the year	726	–	–	726
ECL allowance as at 31 December	1,053	296,009	–	297,062

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	242	296,009	–	296,251
Gross charge/(reversal) for the year	85	–	–	85
ECL allowance as at 31 December	327	296,009	–	296,336

27. INVESTMENTS IN SUBSIDIARIES

Accounting policy

Subsidiaries are entities that are controlled by the Group. Control as referred to here is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the returns of those investees through its power over such investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee
- exposure or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences, until the date that control ceases. Where subsidiaries have been sold or acquired during the year, assets, liabilities, income and expenses of the said subsidiary are included in the Consolidated Financial Statements, from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets of the subsidiaries, not owned directly or indirectly by the Bank. The non-controlling interest is presented in the Consolidated Statement of Financial Position within equity, separately from the equity attributable to the equity holders of the Bank. Non-controlling interests in the profit or loss of the Group, is disclosed separately in the Consolidated Statement of Profit or Loss.

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction. Upon the loss of control, the Group de-recognises the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control, is recognised in the Statement of Changes in Equity. If the Group retains any interest in the previous subsidiary, then such

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interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

The Bank's investments in subsidiaries are carried at cost in the Separate Financial Statements.

		Bank		Group	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Investment in quoted subsidiaries	27.1	3,567,874	1,932,931	–	–
Investment in unquoted subsidiaries	27.2	4,950	4,950	–	–
Total		3,572,824	1,937,881	–	–

27.1 Investment in quoted subsidiaries

	Number of shares	Holding as at 31.12.2021 %	Cost 2021 LKR '000	Number of shares	Holding as at 31.12.2020 %	Cost 2020 LKR '000
People's Leasing & Finance PLC Ordinary shares	1,184,896,862	75.00	690,958	1,184,896,862	75.00	690,958
Ordinary shares allotted by scrip dividends	230,499,388		2,876,916	93,555,206		1,241,973
			3,567,874			1,932,931

27.2 Investment in unquoted subsidiaries

	Number of shares	Holding as at 31.12.2021 %	Cost 2021 LKR '000	Number of shares	Holding as at 31.12.2020 %	Cost 2020 LKR '000
People's Travels (Private) Ltd.	495,000	99.00	4,950	495,000	99.00	4,950
Total			4,950			4,950

27.3 Investments in subsidiaries

Non-Controlling Interests (NCI)

The following subsidiary has a material NCI:

Name	Principal place of business/country of incorporation	Operating segment	Ownership interest held by NCI	
			2021 %	2020 %
People's Leasing & Finance PLC	No. 1161, Maradana Road, Colombo 8, Sri Lanka	Leasing and finance	25.0	25.0

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27.4 Summarised financial information of subsidiaries

The following are summarised financial information for the People's Leasing & Finance PLC as prepared in accordance with LKAS/SLFRS, these have been modified for fair value adjustments on acquisition and for differences in the Group's accounting policies. The information is before inter-company eliminations with other companies in the Group.

	People's Leasing & Finance PLC	
	2021 LKR '000	2020 LKR '000
Statement of comprehensive income		
Revenue	32,384,527	34,521,797
Profit/(loss) after tax	6,123,083	2,668,888
Other comprehensive income	134,032	98,154
Total comprehensive income	6,257,115	2,767,042
Statement of financial position		
Total assets	204,246,451	182,982,409
Total liabilities	(159,172,869)	(144,015,941)
Net assets	45,073,582	38,966,468
Dividends paid to NCI during the year	150,000	55,000

28. INVESTMENTS IN ASSOCIATES

Accounting policy

Associates are those entities in which the Group has significant influence. Significant influence referred to here is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over such policies. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

The investments in associates are carried in the Statement of Financial Position at cost plus post acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate.

At each reporting date Group determines whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the share of results of equity-accounted investees in the Income Statement.

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When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised previously.

Date when the Group ceased to have significant influence it discontinues the use of the equity method and accounts for such investments in accordance with the Sri Lanka Accounting Standard – SLFRS 9 – "Financial Instruments".

	Bank			Group	
As at 31 December	**2021 LKR '000**	**2020 LKR '000**	**Holding %**	**2021 LKR '000**	**2020 LKR '000**
People's Merchant Finance PLC	–	–		–	531,963
Total	–	–		–	531,963

28.1 Movement in investment in associate companies

	People's Merchant Finance PLC	
As at 31 December	**2021 LKR '000**	**2020 LKR '000**
Cost of the investment	541,606	541,606
Add: Share of profit applicable to the Group		
Share of profit/(loss) (net of taxes)	1,629	(9,264)
Share of other comprehensive income (net of taxes)	(379)	(379)
Deemed disposal of the associate[1]	(542,856)	–
Balance as at 31 December	–	531,963

[1] *Deemed disposal of the associate*

Until 30 March 2021 - People`s Merchant Finance PLC was an Associate Company of the Group with 24.96% effective ownership. However, pursuant to a right issue on 30 March 2021 to which the Group did not subscribe to, its holding was subsequently diluted to 16.1%. Accordingly, at 31 December 2021 - the Group treated its investment in Peoples Merchant Finance as an Equity Instrument at Fair Value through Other Comprehensive Income.

29. INVESTMENT PROPERTIES

Accounting policy

An investment property is recognised if it is probable that future economic benefits associated with the investment property will flow to the Group and cost of the said Investment property can be reliably measured. The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard – LKAS 40 – "Investment Property" of which details are more fully set out in Note 5.11 to these Financial Statements.

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As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Cost				
Balance as at 1 January	1,301,346	1,301,346	1,285,575	1,285,575
Additions	–	–	15,771	–
Disposals	(61,415)	–	(61,415)	–
Transfer to property, plant and equipment [1]	(1,239,931)	–	(1,239,931)	–
Balance as at 31 December	–	1,301,346	–	1,285,575
Accumulated depreciation				
Balance as at 1 January	40,008	38,301	28,076	26,369
Charge for the year	1,606	1,707	1,606	1,707
Disposals	(28,723)	–	(16,791)	–
Transfer to property, plant and equipment	(12,891)		(12,891)	–
Balance as at 31 December	–	40,008	–	28,076
Net book value	–	1,261,338	–	1,257,499

[1] *Transfer to property, plant and equipment*

Land and Building which were held to earn rentals become vacant during the year and hence it will not generate cash flows as standalone assets. Therefore, with the commencement of owner occupation, those items were transferred to property, plant and equipment as of 31 December 2021.

30. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Accounting policy

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation 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.

Cost model

Plant and equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when the cost is incurred, if the recognition criteria are met.

Revaluation model

The Bank applies the revaluation model for the entire class of freehold land and buildings and leasehold building. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment charged subsequent to the date of the revaluation.

Revaluations are performed to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in Income Statement, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in Income Statement, except that deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

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Subsequent cost

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow into the Group and its cost can be reliably measured.

Restoration cost

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain future economic benefits is charged to Statement of Comprehensive Income as incurred.

Capital work-in-progress

These are expenses of a capital nature directly incurred in the construction of building, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost.

Depreciation

Depreciation is calculated using the straight-line method to write-down the cost of property and equipment to their residual values over their estimated useful lives. Leased assets under finance leases are depreciated over the shorter of either lease term or its useful life, which is limited to maximum tenor of 50 years. Freehold land is not depreciated. The estimated useful lives are as follows:

Category of asset	Period of depreciation*
Freehold buildings	Estimated useful life
Leasehold building	Shorter of lease term or its useful life, which is limited to maximum tenor of 50 years
Furniture, equipment and machinery	20% p.a.
Freehold and leasehold motor vehicles	25% p.a.
Prepaid leases	Over the period of lease
Self-Banking Units (SBU)**	Over the period of three years

** These depreciation rates are applied consistently over the period*

*** Self-Banking Units (SBU) are classified under machinery and equipment*

De-recognition

Property, plant and equipment is de-recognised 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 recognised in "other operating income" in the Income Statement in the year the asset is de-recognised.

Right-of-use assets

The Group has lease contracts for its branches, service centres, select machinery etc. The Group adopted SLFRS 16 using the modified retrospective approach of adoption with effect from the date of initial application of 1 January 2019. Under this approach, the standard is applied retrospectively and thereby the comparative figures were not restated which were reported under LKAS 17. Further, the Bank applied the standard only to contracts that were previously identified as leases, by applying LKAS 17 at the date of initial application.

Upon adoption of SLFRS 16, the Bank recognised such leases as right-of-use assets and lease liabilities for those leases previously classified as operating leases. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

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30.1 Property, plant and equipment & right-of-use assets – Bank

	Property, plant and equipment					
	Freehold land	Freehold building	Buildings on leasehold land	Motor vehicles	Furniture	Machinery, equipment and Self-Banking Units
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost/Fair value						
Balance as at 1 January	19,029,838	5,614,233	2,351,989	1,520,132	577,406	4,543,030
Additions	–	183,257	1,328	–	43,582	237,557
Disposals	–	–	–	(22,178)	(5,511)	(7,890)
Transfers/adjustments				16,125	(1,102)	–
Transfers from investment property	1,224,160	–	15,771			
Revaluation adjustment on accumulated depreciation	–	(458,627)	(211,890)	–	–	–
Revaluation surplus	2,276,048	972,927	423,876	–	–	–
Balance as at 31 December	22,530,046	6,311,790	2,581,074	1,514,079	614,375	4,772,697
Accumulated depreciation						
Balance as at 1 January	–	146,640	64,274	1,429,483	350,695	2,957,458
Charge for the year	–	311,987	134,725	53,012	73,434	645,352
Disposals	–	–	–	(6,053)	(1,214)	(7,570)
Transfers/adjustments	–	–	12,891			–
Revaluation adjustment on accumulated depreciation		(458,627)	(211,890)	–	–	–
Balance as at 31 December	–	–	–	1,476,442	422,915	3,595,240
Net book value as at 31 December 2021	22,530,046	6,311,790	2,581,074	37,637	191,459	1,177,457
Capital work-in-progress at cost						
Furniture equipment and machinery at store					9,505	53,324

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		Right-of-use assets				Total 2021	Total 2020
Computer	Total property, plant and equipment	Leased lands	Buildings	ATM/CDM and KIOSK machines	Total right-of-use assets		
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
6,434,131	40,070,759	1,007,973	4,301,953	5,182,819	10,492,745	50,563,504	43,686,638
660,929	1,126,651	–	2,270,278	5,113,059	7,383,337	8,509,988	2,148,321
–	(35,579)	(736)	(1,752,689)	(2,613)	(1,756,038)	(1,791,617)	(382,075)
(4,512)	10,511	–	–	–	–	10,511	(6,386)
	1,239,931					1,239,931	–
–	(670,517)	–	–	–	–	(670,517)	(1,211,807)
–	3,672,851	–	–	–	–	3,672,851	6,328,813
7,090,548	45,414,609	1,007,237	4,819,542	10,293,265	16,120,044	61,534,652	50,563,504
4,168,743	9,117,293	599,005	1,517,694	2,425,581	4,542,280	13,659,573	11,184,282
1,089,810	2,308,320	25,575	784,455	1,296,814	2,106,844	4,415,164	3,994,937
(4,273)	(19,110)		(697,203)	(1,140)	(698,343)	(717,454)	(307,828)
–	12,891	–	–	–	–	12,891	(10)
–	(670,517)	–	–	–	–	(670,517)	(1,211,807)
5,254,281	10,748,878	624,580	1,604,946	3,721,255	5,950,781	16,699,658	13,659,573
1,836,267	34,665,731	382,657	3,214,596	6,572,011	10,169,263	44,834,994	36,903,931
						1,747,521	1,429,134
115,761	–	–	–	–		178,642	72,774
						46,761,157	38,405,839

30.1.1 Property Plant and Equipment Pledged as security for Liabilities

There were no Items of Property plant and equipment pledge as securities for liabilities as at reporting date.

30.1.2 Property, Plant and Equipment Retired from Active Use

There were no property, plant and equipment retired from active use as at 31 December 2021

30.1.3 Title Restriction on Property, Plant and Equipment

There were no restriction on the title of property, plant and equipment as at 31 December 2021

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30.2 Property, plant and equipment & right-of-use assets – Group

	Property, plant and equipment					
	Freehold land	Freehold building	Buildings on leasehold land	Motor vehicles	Furniture	Machinery, equipment and Self-Banking Units
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost/Valuation						
Balance as at 1 January	22,040,014	9,975,191	2,437,752	2,171,634	1,145,459	5,609,464
Additions	–	332,959	1,328	231,642	59,870	292,832
Disposals	–	–	–	(354,442)	(29,113)	(91,935)
Transfers/adjustments	–	–	–	(120,017)	(1,102)	–
Transfers from investment property	1,224,160	–	15,771	–	–	–
Exchange rate variance	–	–	–	(75)	3,086	700
Revaluation adjustment on accumulated depreciation		(458,627)	(211,890)	–	–	–
Revaluation surplus	2,276,048	1,122,927	423,876	–	–	–
Balance as at 31 December	25,540,222	10,972,450	2,666,837	1,928,742	1,178,200	5,811,061
Accumulated depreciation						
Balance as at 1 January	–	146,434	133,623	1,723,049	826,889	3,728,155
Charge for the year	–	375,792	134,843	100,217	106,574	716,787
Disposals	–	–	–	(159,434)	(22,458)	(79,619)
Impairment	–	–	–	–	–	–
Transfers/adjustments	–	–	–	–	–	–
Exchange rate variance	–	–	–	–	(1,726)	3,335
Revaluation adjustment on accumulated depreciation	–	(458,627)	(211,890)	–	–	–
Balance as at 31 December	–	63,599	56,576	1,663,832	909,279	4,368,658
Net book value as at 31 December 2021	25,540,222	10,908,851	2,610,261	264,910	268,921	1,442,403
Capital work-in-progress at cost						
Furniture equipment and machinery at store					9,505	53,324

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		Right-of-use assets				Total 2021	Total 2020
Computer	Total property, plant and equipment	Leased lands	Buildings	ATM/CDM and KIOSK machines	Total right-of-use assets		
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
7,331,653	50,711,167	1,090,835	6,375,080	5,182,819	12,648,734	63,359,901	55,632,286
753,188	1,671,817	–	2,509,060	5,113,059	7,622,119	9,293,938	3,456,279
(10,223)	(485,713)	(736)	(1,877,533)	(2,613)	(1,880,882)	(2,366,595)	(576,228)
(4,512)	(125,631)	–	–	–	–	(125,631)	(317,318)
–	1,239,931	–	–	–	–	1,239,931	–
1,557	5,268	–	–	–	–	5,268	(2,124)
–	(670,517)					(670,517)	(1,211,807)
–	3,822,851	–	–	–	–	3,822,851	6,378,813
8,071,663	56,169,175	1,090,099	7,006,607	10,293,265	18,389,971	74,559,146	63,359,901
4,906,692	11,464,842	642,102	2,227,419	2,425,581	5,295,102	16,759,944	13,695,517
1,171,254	2,605,467	25,575	1,127,781	1,296,814	2,450,170	5,055,637	4,635,161
(13,004)	(274,515)	–	(816,417)	(1,140)	(817,557)	(1,092,072)	(395,832)
–	–			–	–	–	36,965
–	–	–	–	–	–	–	(10)
(1,585)	24	–	–	–	–	24	(50)
–	(670,517)	–	–	–	–	(670,517)	(1,211,807)
6,063,358	13,125,301	667,677	2,538,783	3,721,255	6,927,715	20,053,016	16,759,944
2,008,305	43,043,874	422,422	4,467,824	6,572,010	11,462,256	54,506,130	46,599,957
						1,747,521	1,429,134
115,761						178,642	72,774
						56,432,293	48,101,865

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31. INTANGIBLE ASSETS AND GOODWILL

Accounting policy

Intangible assets include all computer software costs incurred, licensed for use by the Group. Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Software is amortised on a straight-line basis in Income Statement over its estimated useful life, from the date on which it is available for use.

Goodwill represents the excess of the cost of acquisition over the fair value of Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Detailed policies of goodwill and intangible assets are set out in Note 5.12 to these Financial Statements.

31.1 Intangible assets

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Cost				
Balance as at 1 January	2,178,831	1,982,609	2,412,278	2,201,524
Additions during the year	2,013,497	196,222	2,025,317	208,570
Disposals during the year	–	–	–	(61)
Adjustments during the year			93	2,245
Balance as at 31 December	4,192,328	2,178,831	4,437,688	2,412,278
Accumulated amortisation				
Balance as at 1 January	1,476,650	1,281,734	1,670,922	1,464,526
Charge for the year	638,134	194,916	654,315	203,556
Adjustments during the year	–	–	59	2,840
Balance as at 31 December	2,114,784	1,476,650	2,325,296	1,670,922
Net book value	2,077,544	702,181	2,112,392	741,356

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31.2 Goodwill

As at 31 December	Group 2021 LKR '000	2020 LKR '000
Cost		
As at beginning of the year	417,099	417,099
As at end of the year	417,099	417,099
Accumulated impairment		
As at beginning of the year	150,725	63,383
Impairment for the year	126,209	87,342
As at end of the year	276,934	150,725
Net book value	140,165	266,374
Total net book value	2,252,557	1,007,730

32. OTHER ASSETS

Unamortised day one difference on staff loans

All staff loans are granted at below market interest rates and are initially recognised at fair value according to Sri Lanka Accounting Standard SLFRS 9 – "Financial Instruments". The difference between granted amount and its fair value is treated as Unamortised day one difference on staff loans and amortised over the loan period

Receivables

Receivables predominantly include the amount receivable on behalf of the senior citizen interest subsidy

Insurance and insurance receivables

The Group cedes insurance risk to reinsurers in the normal course of business. Reinsurance receivables represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

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Net employee benefit asset – Post 1996 Pension Fund

Net employee benefit assets represents net benefit assets of retirement benefit plan for the employees recruited to the Bank on or after 1 January 1996. For more details refer Note 37.2.

As at 31 December	Note	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Deposits and prepayments		1,660,821	2,836,218	1,660,821	2,836,218
Unamortised day one difference on staff loans		10,694,585	10,430,356	10,694,585	10,430,356
Receivables		12,242,022	5,167,625	12,242,022	5,167,625
Insurance and insurance receivables		–	–	937,273	753,304
Net employee benefit asset – Post-1996 pension fund	37.2	4,856,219	–	4,856,219	–
Others		5,348,577	5,329,748	5,005,810	6,215,342
Total		34,802,224	23,763,947	35,396,730	25,402,844

33. DUE TO BANKS

Accounting policy

Due to banks include money market borrowings and borrowings from banks. These are initially recognised at fair value. Subsequent to initial recognition, these are measured at their amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Money market borrowings	79,531,761	163,063,795	79,531,761	163,063,795
Call money borrowing	7,899,999	–	7,899,999	–
Other borrowings	20,314,156	1,425,828	34,966,065	9,376,000
Total	107,745,916	164,489,623	122,397,825	172,439,795

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34. DUE TO OTHER CUSTOMERS

Accounting policy

Due to customers include demand deposits, savings deposits, term deposits including call deposits, certificate of deposits, and margin deposits.

These deposits are initially recognised at fair value. Subsequent to initial recognition, deposits are measured at their amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Total amount due to other customers	2,071,532,612	1,835,099,456	2,168,674,742	1,935,194,040
Total	2,071,532,612	1,835,099,456	2,168,674,742	1,935,194,040

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Analysis				
By product				
Demand deposits (current accounts)	82,017,571	75,135,538	80,875,217	74,036,176
Savings deposits	765,520,568	675,994,591	771,920,432	683,131,848
Fixed deposits	1,220,073,509	1,080,610,331	1,310,277,325	1,172,016,115
Other products	3,920,964	3,358,996	5,601,768	6,009,901
Total	2,071,532,612	1,835,099,456	2,168,674,742	1,935,194,040
By currency				
Sri Lanka rupee	1,855,776,571	1,637,875,615	1,952,918,701	1,737,970,199
United State dollar	199,214,526	182,107,906	199,214,526	182,107,906
Great Britain pound	3,589,704	3,159,988	3,589,704	3,159,988
Others	12,951,811	11,955,947	12,951,811	11,955,947
Total	2,071,532,612	1,835,099,456	2,168,674,742	1,935,194,040

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35. OTHER BORROWINGS

Accounting policy

Other borrowings include refinance borrowings form Central Bank and other financial institutions and borrowing under repurchase agreements.

Subsequent to initial recognition these borrowings are measured at their amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Central Bank of Sri Lanka	2,115,072	4,219,206	2,115,072	4,219,206
Other financial institutions	5,797,709	3,785,145	5,797,709	3,785,145
Borrowing under repurchase agreement	233,506,344	28,358,083	233,506,344	28,358,083
	241,419,125	36,362,434	241,419,125	36,362,434

36. DEFERRED TAX (ASSETS)/LIABILITIES

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Differed tax liabilities	9,621,453	6,682,977	12,079,557	8,299,101
Deferred tax assets	(6,934,123)	(7,378,401)	(8,884,843)	(7,493,659)
	2,687,330	(695,424)	3,194,714	805,442

	Bank							
As at 31 December	2021				2020			
	Deferred tax asset	Deferred tax liability	Income statement	Statement of comprehensive income	Deferred tax asset	Deferred tax liability	Income statement	Statement of comprehensive income
Retirement benefit	4,523,533	3,445,081	930,463	3,596,246	5,901,327	296,167	676,889	(3,402,368)
Impairment allowance for loan advances	2,250,254	–	(956,089)	–	1,294,165	–	(755,589)	–
Accelerated depreciation allowance for tax purpose – PPE		1,059,811	(360,577)	(25,499)	–	1,445,888	(43,598)	178,496
Revaluation of land and building		5,116,561		175,637	–	4,940,922	–	1,648,123
Right-of-use asset	160,336		22,573		182,909		(69,175)	–
	6,934,123	9,621,453	(363,630)	3,746,384	7,378,401	6,682,977	(191,473)	(1,575,749)

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As at 31 December	Group							
	2021				2020			
	Deferred tax asset	Deferred tax liability	Income statement	Statement of comprehensive income	Deferred tax asset	Deferred tax liability	Income statement	Statement of comprehensive income
Retirement benefit	6,474,253	5,215,322	956,073	3,592,412	6,016,585	205,336	643,108	(3,374,264)
Carry forward tax losses	–	–	3,701	–	–	(3,701)	8,652	–
Impairment allowance for loan receivables	2,250,254	(967,210)	(974,035)	–	1,294,165	(949,265)	(1,315,355)	–
Deferred tax on transitional adjustment	–	(214,911)	51,583	–	–	(266,494)	–	–
Accelerated depreciation allowance for tax purpose – (Lease)	–	560,772	(1,003,434)	–	–	1,564,206	252,369	–
Accelerated depreciation allowance for tax purpose – (PPE)	–	1,432,955	(217,083)	(25,499)	–	1,705,851	30,214	178,496
Revaluation of land and building	–	6,108,829	2,844		–	6,062,526	(1,930)	1,662,123
Right-of-use asset	160,336	(56,200)	(14,272)	181,562	182,909	(19,358)	(108,021)	–
	8,884,843	12,079,557	(1,194,623)	3,748,475	7,493,659	8,299,101	(490,963)	(1,533,645)

37. OTHER LIABILITIES

As at 31 December	Note	Bank		Group	
		2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Deferred income in respect of off-balance sheet items		444,889	418,695	444,889	418,695
Expected credit loss in respect of contingent liabilities and commitments		568,215	547,579	568,215	547,579
Sundry creditors		3,791,322	3,995,263	3,791,322	3,995,263
Net defined benefit obligation – Pre-1996 Pension Trust Fund	37.1	4,842,402	19,151,770	4,842,402	19,151,770
Net defined benefit obligation – Post-1996 Pension Fund	37.2	–	144,187	–	144,187
Provision for gratuity	37.3	381,416	722,474	1,124,965	1,350,596
Lease liability	37.4	10,244,653	6,017,463	11,572,070	7,415,918
Payable on other expenses		5,365,380	3,548,739	5,687,830	3,877,066
Insurance liabilities and reinsurance payable		–	–	4,979,084	4,591,123
Other liabilities		5,464,457	6,495,001	10,440,754	9,779,262
Total		31,102,734	41,041,170	43,451,531	51,271,458

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37.1 Net defined benefit obligation – Pre-1996 Pension Trust Fund

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1 January 1996, for which an actuarial valuation was carried out using the "Projected Unit Credit Method" in accordance with the Sri Lanka Accounting Standard – LKAS 19 – "Employee Benefits". The results of the actuarial valuation of the Pre-1996 Pension Plan is summarised below:

		Bank		Group	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Fair value of plan assets	37.1.1	(52,518,847)	(48,662,274)	(52,518,847)	(48,662,274)
Present value of obligations	37.1.2	57,361,249	67,814,044	57,361,249	67,814,044
Net defined benefit obligation		4,842,402	19,151,770	4,842,402	19,151,770

37.1.1 Fair value of plan assets

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Plan assets comprise:				
Fixed deposits	26,666,000	32,230,930	26,666,000	32,230,930
Government Securities	12,970,962	3,701,000	12,970,962	3,701,000
Debentures	12,500,000	12,500,000	12,500,000	12,500,000
Net current assets	381,885	230,344	381,885	230,344
Total	52,518,847	48,662,274	52,518,847	48,662,274
Actual return on plan assets	3,381,542	4,081,138	3,381,542	4,081,138

Movement in the fair value of plan assets

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Fair value of plan assets as at 1 January	48,662,274	46,379,053	48,662,274	46,379,053
Expected return on plan assets	3,799,741	4,448,200	3,799,741	4,448,200
Benefit paid by the plan	(6,032,549)	(5,893,759)	(6,032,549)	(5,893,759)
Actual employer contribution	6,507,580	4,095,841	6,507,580	4,095,841
Actuarial gain/(losses)	(418,199)	(367,061)	(418,199)	(367,061)
Fair value of plan assets as at 31 December	52,518,847	48,662,274	52,518,847	48,662,274

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37.1.2 Movement in the present value of the defined benefit obligations

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Defined benefit obligations as at 1 January	67,814,044	56,820,639	67,814,044	56,820,639
Benefit paid by the plan	(6,032,549)	(5,893,759)	(6,032,549)	(5,893,759)
Current service cost	658,471	544,727	658,471	544,727
Interest cost	5,404,779	5,852,526	5,404,779	5,852,526
Plan amendment[1]	(1,044,000)	–	(1,044,000)	–
Actuarial (gain)/losses	(9,439,495)	10,489,911	(9,439,495)	10,489,911
Present value of defined benefit obligation as at 31 December	57,361,249	67,814,044	57,361,249	67,814,044

37.1.3 Net expenses recognised in income statement

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Current service cost	658,471	544,727	658,471	544,727
Interest cost	5,404,779	5,852,526	5,404,779	5,852,526
Expected return	(3,799,741)	(4,448,200)	(3,799,741)	(4,448,200)
Plan amendment[1]	(1,044,000)	–	(1,044,000)	–
Net expenses	1,219,509	1,949,053	1,219,509	1,949,053

[1] The plan was amended to comply with the provisions of Staff circular No. 470/2021 where all participants' compulsory Normal Retirement Age is now age 62. (They have the option of retiring as early as age 57). The change in the PVDBO is recognised immediately in the income statement as this is considered as a plan amendment.

37.1.4 Actuarial (gains)/losses recognised in other comprehensive income

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Amount accumulated in retained earnings as at 1 January	(24,016,661)	(13,159,689)	(24,016,661)	(13,159,689)
Recognised during the year	9,021,296	(10,856,972)	9,021,296	(10,856,972)
Amount accumulated in retained earnings as at 31 December	(14,995,365)	(24,016,661)	(14,995,365)	(24,016,661)

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37.1.5 Actuarial assumptions

The following are the principal actuarial assumptions as at the reporting date:

	Bank		Group	
As at 31 December	2021 %	2020 %	2021 %	2020 %
Financial assumptions				
Discount rate	11.00	7.97	11.00	7.97
Increase in cost of living allowances	5.50	5.00	5.50	5.00
Future gross salary increase	9.00	9.00	9.00	9.00
Demographic assumptions				
Mortality table	RP – 2000	RP – 2000	RP – 2000	RP – 2000

37.1.6 Sensitivity of assumptions employed in actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Comprehensive Income Statement and the Statement of Financial Position is the assumed changes in discount rate and salary increment rate as follows:

	Bank				Group			
As at 31 December	2021		2020		2021		2020	
	Effect on comprehensive Income Statement increase/ (reduction) LKR '000	Effect on employee benefit obligation increase/ (reduction) in the liability LKR '000	Effect on comprehensive Income Statement increase/ (reduction) LKR '000	Effect on employee benefit obligation increase/ (reduction) in the liability LKR '000	Effect on comprehensive Income Statement increase/ (reduction) LKR '000	Effect on employee benefit obligation increase/ (reduction) in the liability LKR '000	Effect on comprehensive Income Statement increase/ (reduction) LKR '000	Effect on employee benefit obligation increase/ (reduction) in the liability LKR '000
Increase/(decrease) in discount rate								
1%	3,651,894	(3,651,894)	4,972,074	(4,972,074)	3,651,894	(3,651,894)	4,972,074	(4,972,074)
-1%	(4,131,568)	4,131,568	(5,724,517)	5,724,517	(4,131,568)	4,131,568	(5,724,517)	5,724,517
Increase/(decrease) in salary increment								
1%	(598,742)	598,742	(1,150,646)	1,150,646	(598,742)	598,742	(1,150,646)	1,150,646
-1%	564,668	(564,668)	1,074,192	(1,074,192)	564,668	(564,668)	1,074,192	(1,074,192)

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37.2 Net defined benefit obligation – Post-1996 Pension Fund

The Board of Directors of the Bank approved this retirement benefit plan for the employees recruited to the Bank on or after 1 January 1996. An actuarial valuation was carried out using the "Projected Unit Credit Method" in accordance with the Sri Lanka Accounting Standard – LKAS 19 "Employee Benefits". The results of the actuarial valuation of the post-1996 employment benefit plan is summarised below:

		Bank		Group	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Fair value of plan assets	37.2.1	10,038,600	8,513,023	10,038,600	8,513,023
Present value of obligations	37.2.2	(5,182,381)	(8,657,210)	(5,182,381)	(8,657,210)
Net defined benefit (obligation)/asset		4,856,219	(144,187)	4,856,219	(144,187)

37.2.1 Fair value of plan assets

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Plan assets comprise:				
Fixed deposits	9,839,526	8,294,251	9,839,526	8,294,251
Net current assets	199,074	218,772	199,074	218,772
Total	10,038,600	8,513,023	10,038,600	8,513,023
Actual return on plan assets	481,614	590,420	481,614	590,420

Movement in the fair value of plan assets

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Fair value of plan assets as at 1 January	8,513,023	7,050,732	8,513,023	7,050,732
Expected return on plan assets	754,766	734,778	754,766	734,778
Benefit paid by the plan	(60,001)	(10,852)	(60,001)	(10,852)
Actual employer contribution	1,103,964	882,723	1,103,964	882,723
Actuarial gain/(losses)	(273,152)	(144,358)	(273,152)	(144,358)
Fair value of plan assets as at 31 December	10,038,600	8,513,023	10,038,600	8,513,023

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37.2.2 Movement in the present value of the defined benefit obligations

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Defined benefit obligations as at 1 January	8,657,210	6,355,225	8,657,210	6,355,225
Benefit paid by the plan	(60,001)	(10,852)	(60,001)	(10,852)
Current service cost	775,291	592,420	775,291	592,420
Interest cost	770,492	662,850	770,492	662,850
Plan amendment[1]	(1,226,605)	–	(1,226,605)	–
Actuarial (gain)/losses	(3,734,006)	1,057,566	(3,734,006)	1,057,566
Present value of defined benefit obligation as at 31 December	5,182,381	8,657,210	5,182,381	8,657,210

37.2.3 Net expenses recognised in Income Statement

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Current service cost	775,291	592,420	775,291	592,420
Interest cost	770,492	662,850	770,492	662,850
Expected return	(754,766)	(734,778)	(754,766)	(734,778)
Plan amendment[1]	(1,226,605)	–	(1,226,605)	–
Net expenses	(435,588)	520,492	(435,588)	520,492

[1] The plan was amended to comply with the provisions of Staff circular No. 470/2021 where all participants' compulsory Normal Retirement Age is now age 62. (They have the option of retiring as early as age 57). The change in the PVDBO is recognised immediately in the income statement as this is considered as a plan amendment.

37.2.4 Actuarial (gains)/losses recognised in other comprehensive income

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Amount accumulated in retained earnings as at 1 January	(3,126,665)	(1,924,741)	(3,126,665)	(1,924,741)
Recognised during the year	3,460,854	(1,201,924)	3,460,854	(1,201,924)
Amount accumulated in retained earnings as at 31 December	334,189	(3,126,665)	334,189	(3,126,665)

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37.2.5 Actuarial assumptions

The following are the principal actuarial assumptions as at the reporting date:

	Bank		Group	
As at 31 December	2021 %	2020 %	2021 %	2020 %
Financial assumptions				
Discount rate	11.40	8.90	11.40	8.90
Increase in cost of living allowance	5.50	5.00	5.50	5.00
Future gross salary increase	6.50	6.50	6.50	6.50
Demographic assumptions				
Mortality table	RP – 2000	RP – 2000	RP – 2000	RP – 2000

37.2.6 Sensitivity of assumptions employed in actuarial valuation (Bank and Group)

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Comprehensive Income Statement and the Statement of Financial Position is the assumed changes in discount rate and salary increment rate as follows:

As at 31 December	2021		2020	
	Effect on statement of profit or loss increase/ (reduction) LKR '000	Effect on employee benefit obligation increase/ (reduction) in the liability LKR '000	Effect on statement of profit or loss increase/ (reduction) LKR '000	Effect on employee benefit obligation increase/ (reduction) in the liability LKR '000
Increase/(decrease) in discount rate				
1%	936,395	(936,395)	1,596,102	(1,596,102)
-1%	(1,210,579)	1,210,579	(2,082,252)	2,082,252
Increase/(decrease) in salary increment				
1%	(852,923)	852,923	(1,536,895)	1,536,895
-1%	710,924	(710,924)	1,274,832	(1,274,832)

37.3 Contribution to defined benefit plan – Gratuity

Employees who joined the Bank on or after 1 January 1996 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, or if opted can join the proposed new post-1996 pension scheme and if so such employees will forfeit their right to gratuity. An actuarial valuation was carried out using the "Projected Unit Credit Method" in accordance with the Sri Lanka Accounting Standard - LKAS 19 "Employee Benefits".

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As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Balance as at 1 January	722,474	538,498	1,350,596	1,154,368
Past service cost	79,085	–	79,085	–
Current service cost	34,426	60,631	97,356	121,907
Interest cost	58,231	55,196	121,160	116,471
Benefits paid during year	(35,813)	(24,268)	(61,657)	(33,433)
Actuarial losses/(gains) on obligations	(476,987)	92,417	(461,575)	(8,717)
Balance as at 31 December	381,416	722,474	1,124,965	1,350,596

37.3.1 The Principal financial assumptions used in the valuations are as follows:

	Bank 2021	Bank 2020
Discount rate	11.5% p.a.	8.06% p.a.
Gross salary increase for all grades	9.0% p.a.	8.6% p.a.
Normal age of retirement	62 years	55 years

37.3.2 Sensitivity of assumptions employed in actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Statement of Financial Position is the assumed changes in discount rate and salary increment rate as follow:

	2021 Effect on Statement of Comprehensive income Increase/ (reduction) LKR '000	2021 Effect on employee benefit obligation Increase/ (reduction) in the Liability LKR '000	2020 Effect on Statement of Profit or Loss Increase/ (reduction) LKR '000	2020 Effect on employee benefit obligation Increase/ (reduction) in the Liability LKR '000
Increase/(decrease) in discount rate				
1%	354,835	(354,835)	66,084	(66,084)
-1%	(411,686)	411,686	(77,253)	77,253
Increase/(decrease) in salary increment				
1%	(414,168)	414,168	(77,882)	77,882
-1%	352,282	(352,282)	67,634	(67,634)

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37.4 Lease liability

	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Balance as at 1 January	6,017,463	7,027,076	7,415,918	7,922,255
Additions/renewals during the year	7,212,905	841,204	7,395,957	1,630,668
Terminations during the year	(1,020,454)	(71,295)	(1,103,372)	(125,252)
Accretion of interest	583,020	719,619	767,602	898,675
Payments during the year	(2,548,281)	(2,499,141)	(2,904,035)	(2,910,428)
Balance as at 31 December	10,244,653	6,017,463	11,572,070	7,415,918

38. SUBORDINATED TERM DEBTS

Accounting policy

Subordinated term debts represent funds borrowed for long-term funding purposes which are subordinated to the other claims. Subsequent to initial recognition, subordinated term debts are measured at their amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

				Bank		Group	
As at 31 December	Interest rate and repayment terms	Issue date	Maturity date	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Issued by the Bank							
(i) Tranche 2	13.5% – Biannually	30 December 2009	29 December 2022	2,501,849	2,501,849	2,501,849	2,501,849
(ii) Tranche 3	13.0% – Biannually	30 December 2011	29 December 2022	5,003,562	5,003,562	5,003,562	5,003,562
(iii) Tranche 4	13.0% – Biannually	15 June 2013	29 December 2022	5,030,273	5,030,273	5,030,273	5,030,273
(iv) Type A	12.0% – Annually	8 November 2019	8 November 2024	6,679,516	6,679,516	6,679,516	6,679,516
(v) Type B	12.25% – Annually	8 November 2019	8 November 2027	3,499,290	3,499,290	3,499,290	3,499,290
(vi) Type A	9.5% – Annually	27 July 2020	27 July 2025	13,559,773	13,429,041	13,559,773	13,429,041
(vii) Type B	10.25% – Annually	27 July 2020	27 July 2028	7,283,433	7,414,165	7,283,433	7,414,165
Additional Tier I Capital Bond							
AT I – Bond	9.5% – Annually	29 March 2021	N/A	3,746,582	–	3,746,582	–
AT I – Bond	9.5% – Annually	3 August 2021	N/A	1,557,401	–	1,557,401	–

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As at 31 December	Interest rate and repayment terms	Issue date	Maturity date	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Issued by the subsidiary							
Senior, unsecured, redeemable, 'AA(-) rated							
Type C	12.6% – Biannually	16 November 2016	16 November 2021	–	–	–	6,892,419
Type A	12.4% – Annually	23 April 2018	18 April 2022	–	–	762,449	761,451
Type B	12.8% – Annually	23 April 2018	18 April 2023	–	–	5,628,592	5,656,469
Type A	8.0% – Annually	5 August 2021	5 August 2024	–	–	3,028,472	–
Type B	8.0% – At Maturity	5 August 2021	5 August 2024	–	–	2,490,192	–
Type C	9.0% – Annually	5 August 2021	5 August 2026			4,412,374	–
Type D	9.0% – Annually	5 August 2021	5 August 2026	–	–	376,706	–
Total				48,861,680	43,557,696	65,560,465	56,868,035
Due within 1 year				12,535,684	–	13,298,133	6,892,419
Due after 1 year				36,325,996	43,557,696	52,262,332	49,975,616
Total				48,861,680	43,557,696	65,560,465	56,868,035

38.1 Movement in subordinated term debts

	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Balance as at 1 January	43,557,696	22,714,490	56,868,035	40,513,091
Proceed received from subordinated debt	5,000,000	20,000,000	15,000,000	20,000,000
Repayment of subordinated debt	–	–	(7,230,443)	(4,483,521)
Interest expense on subordinated debt	5,103,325	3,689,299	6,966,957	5,722,717
Interest paid on subordinated debt	(4,799,341)	(2,846,093)	(6,044,084)	(4,884,252)
Balance as at 31 December	48,861,680	43,557,696	65,560,465	56,868,035

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39. STATED CAPITAL/ASSIGNED CAPITAL

As at 31 December	Note	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Stated capital	39.1	49,998	49,998	49,998	49,998
Assigned capital	39.2	12,152,000	12,152,000	12,152,000	12,152,000
		12,201,998	12,201,998	12,201,998	12,201,998

39.1 Stated capital

39.1.1 Movement of stated capital

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Authorised				
1,000,000,000 ordinary shares of 50/- each	50,000,000	50,000,000	50,000,000	50,000,000

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Fully paid				
999,960 ordinary shares of 50/- each	49,998	49,998	49,998	49,998

All issued shares are fully-paid with the exception of 40 shares which yet remain unpaid.

39.1.2 Principal shareholders of the Bank are as follows

As at 31 December	2021 %	2020 %
Government of Sri Lanka	92.27	92.27
Cooperative Societies	7.73	7.73
	100.00	100.00

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39.2 Assigned capital (capital pending allotment)

During the period 2005 and 2008 and in 2017, the General Treasury – Ministry of Finance infused an aggregate of LKR 12,152 Mn. in People's Bank as new capital. These amounts were held in the Bank's Capital Pending Allotment/Assigned Capital account pending conclusion of applicable formalities to issue new shares and to transfer to the Paid in Capital Account. Upon conclusion thereto, the General Treasury, Ministry of Finance will own 99.97% in People's Bank whilst the Cooperative Societies will have 0.03%.

40. STATUTORY RESERVE FUND

The Statutory Reserve Fund is maintained as required by the Banking Act No. 30 of 1988. Accordingly, the Bank should, out of profits after taxation but before any dividend is declared, transfer to the Statutory Reserve Fund a sum equivalent to not less than 5% until the permanent reserve is equal to 50% of the Bank's paid-up capital and not less than 2% until the Permanent Reserve equals the paid-up capital.

Accordingly, Bank has transferred LKR 1,186 Mn. for the current year.

41. OTHER RESERVES

41.1 Revaluation reserve

This reserve has been created in accordance with Sri Lanka Accounting Standard – LKAS 16 – "Property, Plant and Equipment"

41.2 Capital reserve

This reserve has been created in 1987 and increased in 1998, has no transferred to date.

41.3 Special risk reserve

In terms of Central Bank directives, 25% of Primary Dealer Unit (PDU) profit has been transferred to Special Risk Reserve in order to promote the safety, soundness, and the stability of the Primary Dealer System and to build-up Primary Dealer Capital Base.

According to Central Bank Direction 08/11/011/0019/001 dated 14 February 2013 Bank is exempted from the requirement of maintaining the reserve. Therefore, no transfer is made to the reserve this year based on the direction from the Central Bank of Sri Lanka.

41.4 General reserve

This reserve has been created under Section 22 (2) of the People's Bank Act No. 29 of 1961. The General Reserve represents accumulated unallocated retained profits and losses which are available for distribution and for settlement of debentures issued.

41.5 Financial assets at FVOCI reserve

This FVOCI reserve comprises the cumulative net change in equity instruments at FVOCI and debt instruments at FVOCI until such investments are derecognised or impaired.

41.6 Special levy to Treasury/Dividend

Payment of LKR 219 Mn. was made according to the agreement between the Government of Sri Lanka and the People's Bank, the Bank is required to pay back 25% of the Restructuring Bond Interest to the General Treasury as a dividend. Additional details relating to this expense is reflected in Note 22.3.C.C

LKR 2,197 Mn. pertains to a dividend/special levy paid to the Consolidated Fund of the Government of Sri Lanka as determined by the Ministry of Finance.

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42. MOVEMENT IN RETAINED EARNINGS AND OTHER RESERVES

42.1 Bank

	Statutory reserve LKR '000	Revaluation reserve LKR '000	Capital reserve LKR '000	Special risk reserve LKR '000	General reserve LKR '000	Assets at FVOCI LKR '000	Retained earnings LKR '000	Total LKR '000
Balance as at 1 January 2020	7,315,774	14,051,911	5,663	1,633,710	11,061,092	616,166	48,078,126	82,762,442
Profit for the year	–	–	–	–	–		14,174,943	14,174,943
Net gains/(losses) on equity instruments at fair value through OCI	–	–	–	–	–	(67,773)	–	(67,773)
Net gains/(losses) on debt instruments at fair value through OCI	–	–	–	–	–	(12,418)	–	(12,418)
Net actuarial gains and losses on defined benefit plans	–	–	–	–	–		(12,151,314)	(12,151,314)
Deferred tax effect on defined benefit plans	–	–	–	–	–		3,402,368	3,402,368
Revaluation surplus of land and building		6,523,641					–	6,523,641
Deferred tax effect on revaluation surplus	–	(1,826,619)	–	–	–		–	(1,826,619)
Transfer to reserve during the year	708,747	–	–	–	873,864		(1,582,611)	–
Special levy to treasury/dividend	–	–	–	–	–		(3,023,670)	(3,023,670)
Balance as at 31 December 2020	8,024,521	18,748,933	5,663	1,633,710	11,934,956	535,975	48,897,842	89,781,600
Balance as at 1 January 2021	8,024,521	18,748,933	5,663	1,633,710	11,934,956	535,975	48,897,842	89,781,600
Profit for the year	–	–	–	–	–	–	23,720,143	23,720,143
Net gains/(losses) on equity instruments at fair value through OCI	–	–	–	–	–	(316,074)	–	(316,074)
Net gains/(losses) [including change in ECL] on debt instruments at fair value through OCI						713		713
Net actuarial gain/(losses) on defined benefit plans	–	–	–	–	–	–	12,959,137	12,959,137
Deferred tax effect gain/(losses) on defined benefit plans							(3,110,193)	(3,110,193)
Deferred tax effect on change in income tax rate on the opening balance							245,293	245,293
Revaluation surplus of land and building	–	3,672,851	–	–	–	–	–	3,672,851
Deferred tax effect on revaluation surplus		(881,484)	–	–	–	–	–	(881,484)
Transfer to reserve during the year (Note 40) and (Note 41.4)	1,186,007	–	–	–	567,044	–	(1,753,051)	–
Special levy to treasury/dividend (Note 41.6)	–	–	–	–	–	–	(2,196,888)	(2,196,888)
Balance as at 31 December 2021	9,210,528	21,540,300	5,663	1,633,710	12,502,000	220,614	78,762,283	123,875,098

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42.2 Group

	Statutory reserve	Revaluation reserve	Capital reserve	Special risk reserve	General reserve	Financial assets at FVOCI reserve	Exchange equalisation fund	Retained earnings	Total	Non-controlling interest	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January 2020	7,315,774	15,863,971	5,663	1,633,710	11,061,092	498,755	234,281	70,339,829	106,953,075	10,860,660	117,813,735
Profit for the year	–	–	–	–	–		–	15,229,858	15,229,858	860,628	16,090,486
Net gains/(losses) on equity instruments at fair value through OCI	–	–	–	–	–	669	–	–	669	(13,048)	(12,379)
Net gains/(losses) on debt instruments at fair value through OCI	–	–	–	–	–	(6,616)	–	–	(6,616)	–	(6,616)
Net gains/(losses) on translating the financial statements of foreign operation	–		–	–	–		34,251	–	34,251	11,417	45,668
Net actuarial gains and losses on defined benefit plans	–	–	–	–	–		–	(12,076,020)	(12,076,020)	25,277	(12,050,743)
Deferred tax effect on defined benefit plans	–	–	–	–	–		–	3,381,290	3,381,290	(7,026)	3,374,264
Revaluation surplus on land and building	–	6,561,141	–	–	–		–	–	6,561,141	12,500	6,573,641
Deferred tax effect on revaluation surplus		(1,837,119)							(1,837,119)	(3,500)	(1,840,619)
Transfer to reserve during the year	708,747	–	–	–	873,864		–	(1,582,611)	–	–	–
Special levy to treasury/dividend	–	–	–	–	–		–	(3,023,670)	(3,023,670)	–	(3,023,670)
Dividend payment	–	–	–	–	–	–	–	–	–	(55,000)	(55,000)
Balance as at 31 December 2020	8,024,521	20,587,993	5,663	1,633,710	11,934,956	492,808	268,532	72,268,676	115,216,859	11,691,908	126,908,767
Balance as at 1 January 2021	8,024,521	20,587,993	5,663	1,633,710	11,934,956	492,808	268,532	72,268,676	115,216,859	11,691,908	126,908,767
Profit for the year	–	–	–	–	–			26,350,975	26,350,975	1,736,673	28,087,648
Net gains/(losses) on equity instruments at fair value through OCI	–	–	–	–	–	(291,223)	–	–	(291,223)	(21,754)	(312,977)
Net gains/(losses)[including change in ECL] on debt instruments at fair value through OCI						(69,418)			(69,418)	(23,139)	(92,557)
Deferred tax effect on above						22,556			22,556	7,519	30,075
Net gains/(losses) on translating the financial statements of foreign operation	–	–	–	–	–		130,593	–	130,593	43,531	174,124
Net actuarial gain/(losses) on defined benefit plans	–	–	–	–	–		–	12,947,578	12,947,578	(3,853)	12,943,725
Deferred tax effect gain/(losses) on defined benefit plans	–	–	–	–	–		–	(3,107,318)	(3,107,318)	959	(3,106,359)
Deferred tax effect on change in income tax rate on the opening balance								245,293	245,293	–	245,293
Revaluation surplus on land and building	–	3,785,351	–	–	–		–	–	3,785,351	37,500	3,822,851
Deferred tax effect on revaluation surplus	–	(908,484)	–	–	–		–		(908,484)	(9,000)	(917,484)
Transfer to reserve during the year (Note 40) and (Note 41.4)	1,186,007	–	–	–	567,044		–	(1,753,051)	–	–	–
Special levy to treasury/dividend (Note 41.6)	–	–	–	–	–		–	(2,196,888)	(2,196,888)	–	(2,196,888)
Dividend payment	–	–	–	–	–		–	–	–	(150,000)	(150,000)
Balance as at 31 December 2021	9,210,528	23,464,860	5,663	1,633,710	12,502,000	154,723	399,125	104,755,265	152,125,874	13,310,344	165,436,218

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43. CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

		Bank		Group	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Contingent liabilities	43.1	350,270,683	314,760,629	351,023,683	315,591,750
Commitments	43.2	79,068,727	175,725,812	93,386,727	182,645,676
Less:		429,339,410	490,486,441	444,410,410	498,237,426
Allowance for expected credit losses	43.3	(568,215)	(547,579)	(568,215)	(547,579)
		428,771,195	489,938,862	443,842,195	497,689,847

43.1 Contingent liabilities

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Acceptances	94,817,795	53,034,225	94,817,795	53,034,225
Documentary credit	73,281,666	74,557,296	73,281,666	74,557,296
Guarantees	74,070,212	74,750,532	74,823,212	75,581,653
Forward exchange contracts	108,101,010	112,418,576	108,101,010	112,418,576
Total	350,270,683	314,760,629	351,023,683	315,591,750

43.2 Commitments

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Undrawn overdrafts and loans	79,068,727	175,725,812	93,386,727	182,645,676
	79,068,727	175,725,812	93,386,727	182,645,676

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43.3 Movement in allowance for expected credit loss (ECL) based on exposure to credit risk

Bank and Group	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	78,486	47,988	421,105	547,579
Net charge/(reversal) for the year	750	206,330	(186,444)	20,636
Closing balance as at 31 December	79,236	254,318	234,661	568,215

Bank and Group	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	309,273	243,876	621,195	1,174,344
Net charge/(reversal) for the year	(230,787)	(195,888)	(200,090)	(626,765)
Closing balance as at 31 December	78,486	47,988	421,105	547,579

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43.4 Other capital commitments

Capital expenditure approved by the Board of Directors for which provisions has not been made in theses Financial Statements amounted to;

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Approved and contracted for	362,824	703,878	362,824	703,878
Approved but not contracted for	398,592	131,000	398,592	131,000
	761,416	834,878	761,416	834,878

43.5 Assessment received by the Bank

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

Income tax

Income tax for the Years of Assessment, 2011/12, 2012/13, 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 for which assessed amounts of respectively LKR 1,383.8 Mn. (ITA 14271100064V1), LKR 6,054.8 Mn. (ITA 15271100004V1), LKR 7,452.6 Mn. (ITA 16300500108V1), LKR 5,564.8 Mn. (ITA 170106000084V1), LKR 3,891.6 Mn. (201516002), LKR 3,523.2 Mn. (0201617002) and LKR 5,375.4 Mn. (0201718002) have all been amicably finalised and subsequently settled with the Inland Revenue Department (IRD). The provision has been made at the year end.

The following tax assessment is outstanding which, although currently is at a Court of Appeal stage, is also in the process of settlement:

Period - Tax Type	Charge Number	Assessment Value	Current status
2010/11 - Income Tax	(ITA 13291100319V1)	LKR 2,422.29 Mn.	

Please note: For the above purposes, provisions have been constructed based on the likely outcome as advised by the respective Tax Consultant.

Value Added Tax

Value added tax on financial services for the years 2012, 2013, 2014, 2015, 2016, 2017 and 2018 are respectively LKR 732.3 Mn. (VATFS/ BFSU/2015/660), LKR 360.8 Mn. (VATFS/BFSU/2015/661), LKR 405.0 Mn. (VATFS/BFSU/2017/816), LKR 802.8 Mn. (VATFS/BFSU/2018/894), LKR 1,089.1 Mn. (VATFS/BFSU/2019/1008) LKR 1,083.1 Mn. (7501718002) and LKR 1,309.2 Mn. (7501819002).

Please note: For the above purposes, provisions have been constructed based on the likely outcome as advised by the respective Tax Consultant."

Nation Building Tax

Nation Building Tax on financial services for the years of assessment 2014, 2015, 2016 and 2017 were respectively LKR 60.3 Mn. (NBTFS/BFSU/2017/086), LKR 130.3 Mn. (NBTFS/BFSU/2018/239), LKR 148.0 Mn. (NBTFS/BFSU/2019/442), LKR 148.0 Mn. (NBTFS/BFSU/2019/442) and LKR 144.4 Mn. (NBTFS/BFSU/2020/633,634,635 and 636)

Please note: For the above purposes, provisions have been constructed based on the likely outcome as advised by the respective Tax Consultant.

43.6 Litigation against the Bank and companies within the Group

In the normal course of business, the Bank is involved in various types of litigation, including litigation with borrowers who are in default under terms of their loan agreements. In certain circumstances, borrowers have asserted or threatened counter claims defences. The Bank is also contesting certain Labour Tribunal cases. In the opinion of management, based on its assessment and consultation with outside counsel, litigation which is currently pending against the Bank and the Group will not have a material impact on the financial condition or future operations of the Bank and the Group as a whole. The total damage claimed of litigation against the bank amounts to approximately LKR 9.6 Bn., of which details are given Below:

Zone	Region	LKR '000
Western I	Colombo South	3,000,000
Western II	Kalutara	31,103,166
Central	Kandy	41,131,900
	Matale	14,552,000
	Nuwara Eliya	1,500,000
Wayamba	Kurunegala	16,557,342
Sabaragamuwa	Rathnapura	1,000,000
Eastern	Ampara	10,000,000
	Batticaloa	500,000
North Central	Anuradhapura	2,775,000
Southern	Galle	250,000,000
	Matara	7,100,000
Uva	Badulla	2,000,000
Special Assets Unit/Corporate Banking Division		9,224,419,768
		9,605,639,176

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44. SUBSEQUENT EVENTS

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

Surcharge Tax

In the 2022 National Budget as presented to Parliament on November 12, 2021 - a Surcharge Tax was proposed as a one-time tax for those with taxable income in excess of LKR 2.0 billion for the year of assessment commencing from April 1, 2020 at the rate of 25.0% on such taxable income. On February 7, 2022 - a bill governing the imposition and the administration of the said tax was published in the Gazette. On February 22, 2022 - this was tabled in Parliament for deliberation. However, as it is not considered as yet being substantially enacted as at the reporting period end, this has not yet been accounted for in these Financial Statements. If accounted for, it will result in an increase in tax liability and a reduction in equity by approximately LKR 5.755 billion

45. RELATED PARTY DISCLOSURES

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

45.1 Parent and the ultimate controlling party

People's Bank is a Sri Lankan Government owned Bank.

45.2 Key Management Personnel (KMPs) and their Close Family Members (CFMs)

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the Bank. Such key management persons include Chairman, Executive, and Non-Executive Directors, and Chief Executive Officer/General Manager of the Bank. Close family members of an individual are those family members who may be expected to influence, or to be influenced by, that individual in their dealings with the entity. They may include individual's domestic partner and children, children of the individual's domestic partner and dependants of the individual or the individual's domestic partner.

45.2.1 Compensation of Key Management Personnel (KMPs)

For the year ended 31 December	2021 LKR '000	2020 LKR '000
Short-term employee benefits	38,053	30,940
Post-employment pension	1,390	9,572
Termination benefits	–	28,869

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45.2.2 Transactions with Key Management Personnel (KMPs)

For the year ended 31 December	2021 LKR '000	2020 LKR '000
a. Items in income statement		
Interest income	108	1,520
Interest expenses	1,849	6,372

As at 31 December	2021 LKR '000	2020 LKR '000
b. Items in statement of financial position		
Term loans	25,290	20,533
Overdrafts	–	15,588
Credit cards	1,599	1,238
Deposits	62,694	36,868

45.2.3 Transactions with Close Family Members (CFMs) of the Key Management Personnel (KMP)

For the year ended 31 December	2021 LKR '000	2020 LKR '000
a. Items in income statement		
Interest income	–	437
Interest expenses	23	185

As at 31 December	2021 LKR '000	2020 LKR '000
b. Items in statement of financial position		
Deposits	575	4,809

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45.3 Transactions with Group entities

The Group entities include the subsidiaries and associates of the Bank.

45.3.1 Transactions with subsidiaries, subsubsidiaries, and associate companies of the Bank

The aggregate amount of income and expenses arising from the transactions during the year, amount due to and due from the relevant related party and total contract sum of off-balance sheet transactions at the year end are summarised below:

	Subsidiary companies of the Bank		Subsubsidiary companies of the Bank	
For the year ended 31 December	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
a. Items in income statement				
Interest income	117,685	120,182	16,885	23,389
Interest expense	889,348	866,872	29,173	43,122
Dividend income	1,634,944	732,467	–	–
Other income	50,884	34,954	361,017	92,903
Other expenses	–	–	123,604	580,426

	Subsidiary companies of the Bank		Subsubsidiary companies of the Bank	
As at 31 December	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
b. Items in statement of financial position				
Assets				
Investments	3,572,824	1,932,931	–	–
Loans	–	–	139,245	129,319
Overdrafts	316,103	218,709	140,383	18,626
Assets backed securities	563,525	786,220	–	–
Other receivables	20,423	3,018	207,126	173,641
	4,472,875	2,940,878	486,754	321,586
Liabilities				
Deposits	11,164,554	8,473,458	673,225	705,640
Securities sold under repurchase agreements	6,247,581	6,247,581	–	–
Other payables	–	1,511	76,276	176,876
	17,412,135	14,722,549	749,501	882,516

	Subsidiary companies of the Bank		Subsubsidiary companies of the Bank	
As at 31 December	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
c. Off-balance sheet items				
Guarantees	10,000	19,100	–	–

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45.4 Transactions with Government of Sri Lanka (GOSL) and State Owned Enterprises (SOEs)

Transactions and arrangements entered in to by the Bank with the Government of Sri Lanka and State Owned Enterprises as follows:

For the year ended 31 December		2021 LKR '000	2020 LKR '000
a. Items in income statement			
Interest income		93,242,042	79,755,813
Other income		524,197	543,460
Interest expenses		12,465,608	6,431,387
Tax payments Inland Revenue Department –	VAT, NBT and DRL	6,861,930	3,851,486
	Income tax	6,666,457	7,051,737
	Other taxes	603,684	632,897

As at 31 December		2021 LKR '000	2020 LKR '000
b. Items in statement of financial position			
Assets			
Balances with CBSL		56,717,820	14,196,565
Investment in Government Securities		285,114,839	402,665,780
Loans and receivables –	Term loans	575,064,841	612,450,502
	– Overdrafts	352,041,725	218,845,888
	– Bills	8,705	154,647
		1,268,947,931	1,248,313,382
Liabilities			
CBSL borrowings		2,115,072	5,150,052
Deposits –	Demand	31,028,025	27,310,447
	– Savings	28,039,434	39,134,865
	– Time	165,539,102	150,661,433
		226,721,633	222,256,797

As at 31 December	2021 LKR '000	2020 LKR '000
c. Items in statement of changes in equity		
Dividends paid	219,690	219,690
Special levy	1,977,198	2,803,980

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As at 31 December	2021 LKR '000	2020 LKR '000
d. Off-balance sheet items		
Acceptances	83,541,231	46,535,867
Documentary credit	29,527,335	48,070,316
Guarantees	7,594,673	9,225,308
	120,663,239	103,831,491

45.5 Transactions with employment benefit plans for Bank's employees

Transactions and arrangements entered into by the post-employment benefit plans for Bank's employees are as follows:

45.5.1 Transactions with Pre-1996 Pension Trust Fund

For the year ended 31 December	2021 LKR '000	2020 LKR '000
a. Items in income statement		
Other income	2,554	10
Interest expenses	3,934,580	4,751,348
Contribution made	1,219,508	1,949,053

As at 31 December	2021 LKR '000	2020 LKR '000
b. Items in statement of financial position		
Liabilities		
Deposits	26,796,188	32,625,609
Securities sold under repurchase agreements	13,467,012	3,822,532
Subordinated term debts	12,535,685	12,535,684

45.5.2 Transactions with Post-1996 Pension Fund

For the year ended 31 December	2021 LKR '000	2020 LKR '000
a. Items in income statement		
Interest expenses	560,017	686,535
Contribution made	(435,588)	520,492

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As at 31 December	2021 LKR '000	2020 LKR '000
b. Items in statement of financial position		
Liabilities		
Deposits	10,079,128	8,558,784

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

46.1 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

Determination of fair value and fair value hierarchy

All assets and liabilities for which fair value is disclosed in the Financial Statements are categorised using the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Valuation based on quoted market prices

Here the fair value is determined using the quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Valuation based on observable inputs

Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Valuation based on significant unobservable inputs

Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

46.2 Financial instruments recorded at fair value

Following descriptions show how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques which incorporates the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates.

Financial assets – Fair value through profit or loss

Financial instruments are classified as fair value through profit or loss consists of Government Securities, equity securities, unit trusts, and debt securities. Government Securities are valued using yield curve published by the Central Bank of Sri Lanka, and the Group uses quoted market prices in the active market for the valuation of quoted equities as at the reporting date.

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Financial assets – Fair value through other comprehensive income

Financial assets – fair value through other comprehensive income are primarily consist of quoted and unquoted equities and debentures. These assets are valued using models that use both observable data and unobservable data. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions.

Property, plant and equipment

Free hold lands and buildings and buildings on leasehold lands are carried at revalued amount less any subsequent accumulated depreciation and impairment losses.

46.3 Assets measured at fair value – by level of the fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Bank				Group			
As at 31 December	2021				2021			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets								
Derivative financial instruments								
Forward foreign exchange contracts and SWAPS	–	441,877	–	441,877	–	441,877	–	441,877
Financial assets – At fair value through profit or loss								–
Treasury Bills and Bonds	1,276,679	–	–	1,276,679	1,276,679	–	–	1,276,679
Quoted – Equity securities	253,517	–	–	253,517	389,158	–	–	389,158
– Debt securities	28,654	–	–	28,654	28,654	–	–	28,654
– Unit trusts	–	–	–	–	859,055	–	–	859,055
Equity instruments at fair value through OCI								
Unquoted equity securities	–	–	403,168	403,168	–	–	403,178	403,178
Quoted equity securities	1,218,207	–	–	1,218,207	1,485,966	–	–	1,485,966
Debt instruments at fair value through OCI								
Treasury Bills and Bonds	–			–	303,426			303,426
Debt securities	9,399,272	–	–	9,399,272	10,293,297			10,293,297
Non-financial assets measured at fair value				–				–
Land and building			31,422,910	31,422,910			39,059,334	39,059,334
	12,176,329	441,877	31,826,078	44,444,284	14,636,235	441,877	39,462,512	54,540,624
Financial liabilities								
Derivative financial instruments								
Forward foreign exchange contracts		1,761,220		1,761,220		1,761,220		1,761,220

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As at 31 December	Bank				Group			
	2020				2020			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets								
Derivative financial instruments								
Forward foreign exchange contracts and SWAPS	–	97,645	–	97,645	–	97,645	–	97,645
Financial assets – At fair value through profit or loss								
Treasury Bills and Bonds	46,162,420	–	–	46,162,420	46,162,420	–	–	46,162,420
Quoted – Equity securities	226,119	–	–	226,119	249,835	–	–	249,835
– Debt securities	36,488	–	–	36,488	36,488	–	–	36,488
– Unit trusts	–	–	–	–	6,279,846	–	–	6,279,846
Equity instruments at fair value through OCI								
Unquoted equity securities	–	–	815,900	815,900	–	–	815,910	815,910
Quoted equity securities	1,121,878	–		1,121,878	962,675	–	–	962,675
Debt instruments at fair value through OCI								
Treasury Bills and Bonds	318	–	–	318	267,696	–	–	267,696
Debt securities	2,631,913	–	–	2,631,913	2,631,913	–	–	2,631,913
Non-financial assets measured at fair value								
Land and building	–	–	26,785,146	26,785,146	–	–	34,172,900	34,172,900
	50,179,136	97,645	27,601,046	77,877,827	56,590,873	97,645	34,988,810	91,677,328
Financial liabilities								
Derivative financial instruments								
Forward foreign exchange contracts	–	976,486	–	976,486	–	976,486	–	976,486

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46.4 Movements in Level 3 assets measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value.

	Bank					Group				
	As at 1 January 2021 LKR '000	Total gains/(losses) recorded in profit or loss LKR '000	Total gains/ (losses) recorded in OCI LKR '000	Purchases/ (Sales) LKR '000	As at 31 December 2021 LKR '000	As at 1 January 2021 LKR '000	Total gains/(losses) recorded in profit or loss LKR '000	Total gains/ (losses) recorded in OCI LKR '000	Purchases/ (Sales) LKR '000	As at 31 December 2021 LKR '000
Financial assets										
Financial investments at fair value through OCI										
Unquoted equity securities	815,900	–	(412,732)		403,168	815,910	–	(412,732)	–	403,178
Total Level 3 financial assets	815,900	–	(412,732)	–	403,168	815,910	–	(412,732)	–	403,178
Financial liabilities										
Total Level 3 financial liabilities	–	–	–	–	–	–	–	–	–	–
Total net Level 3 financial assets/(liabilities)	815,900	–	(412,732)	–	403,168	815,910	–	(412,732)	–	403,178

	Bank					Group				
	As at 1 January 2020 LKR '000	Total gains/ (losses) recorded in profit or loss LKR '000	Total gains/ (losses) recorded in OCI LKR '000	Purchases/ (Sales) LKR '000	As at 31 December 2020 LKR '000	As at 1 January 2020 LKR '000	Total gains/ (losses) recorded in profit or loss LKR '000	Total gains/ (losses) recorded in OCI LKR '000	Purchases/ (Sales) LKR '000	As at 31 December 2020 LKR '000
Financial assets										
Financial investments at fair value through OCI										
Unquoted equity securities	852,646	–	(44,116)	7,370	815,900	852,656	–	(44,116)	7,370	815,910
Total Level 3 financial assets	852,646	–	(44,116	7,370	815,900	852,656	–	(44,116)	7,370	815,910
Financial liabilities										
Total Level 3 financial liabilities	–	–	–	–	–	–	–	–	–	–
Total net Level 3 financial assets/(liabilities)	852,646	–	(44,116)	7,370	815,900	852,656	–	(44,116)	7,370	815,910

46.5 Fair value of assets and liabilities not measured at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (original maturity less than a year), it is assumed that the carrying amount approximate their fair values. This assumption is also applied to demand deposits, call deposits, and savings deposits without specific maturity.

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Fixed rate financial instruments

Loans and advances with fixed interest rates were fair valued using market rates end of the reporting period and other variable interest-bearing loans were considered as carrying value equal fair value. Conversely, fixed deposits with original tenor above one year and interest paid at maturity were discounted using current market rates offered to customers end of the reporting period.

Set out below is a comparison by class, of the carrying amount and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Bank				Group			
	2021		2020		2021		2020	
	Carrying amount LKR '000	Fair value LKR '000	Carrying amount LKR '000	Fair value LKR '000	Carrying amount LKR '000	Fair value LKR '000	Carrying amount LKR '000	Fair value LKR '000
Financial assets								
Cash and cash equivalents	57,538,351	57,538,351	71,461,242	71,461,242	58,836,831	58,836,831	72,899,208	72,899,208
Balances with central banks	56,717,820	56,717,820	14,196,565	14,196,565	56,717,820	56,717,820	14,196,565	14,196,565
Placements with banks	–	–	10,304,422	10,304,422	3,325,726	3,325,726	13,910,824	13,910,824
Loans and advances to banks	10,131,952	10,131,952	23,610,101	23,610,101	13,398,055	13,398,055	23,622,700	23,622,700
Loans and advances to other customers	1,835,697,108	1,834,826,961	1,635,579,343	1,635,579,343	1,990,689,061	1,989,818,915	1,776,231,315	1,776,231,315
Debt instruments measured at amortised cost	587,320,182	527,600,968	357,107,701	345,717,384	600,079,625	540,360,411	365,900,452	354,510,135
Financial liabilities								
Due to banks	107,745,916	107,745,916	164,489,623	164,489,623	122,397,825	122,397,825	172,439,795	172,439,795
Due to other customers	2,071,532,612	2,067,513,813	1,835,099,456	1,827,015,368	2,168,674,742	2,164,655,943	1,935,194,040	1,927,109,952
Other borrowings	241,419,125	241,419,125	36,362,434	36,362,434	241,419,125	241,419,125	36,362,434	36,362,434
Subordinated term debts	48,861,680	48,861,680	43,557,696	43,557,696	65,560,465	65,560,465	56,868,035	56,868,035

47. FINANCIAL REPORTING BY SEGMENT

Accounting policy

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, (including revenue and expenses that relate to transactions with other components of the Group) whose operating results are reviewed regularly by the chief operating decision-maker to make decisions about resources to be allocated to each segment and assess its performance, and for which discrete financial information is available.

The Group's segmental reporting is based on the following operating segments:

- Retail banking
- Corporate banking
- Treasury and Primary Dealer Unit (PDU)
- Leasing
- Insurance
- Finance
- Travels

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The following table presents income, profit, total assets, total liabilities of the Group's operating segments:

	Retail banking		Corporate banking		Treasury and PDU		Total Bank	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Income from external customers								
Net interest income	56,157,112	37,263,351	9,865,874	11,020,329	16,025,384	12,238,237	82,048,370	60,521,917
Net fee and commission income	6,134,924	5,073,261	1,531,140	1,211,950	4,318	(43,907)	7,670,382	6,241,304
Net gain (loss) from trading	(1,504,413)	1,330,339	1,304,327	815,781	(1,144,943)	443,001	(1,345,029)	2,589,121
Others	2,678,707	1,050,633	106,533	98,697	(1,535,509)	4,000	1,249,731	1,153,330
Total operating income from external customers	63,466,330	44,717,584	12,807,874	13,146,757	13,349,250	12,641,331	89,623,454	70,505,672
Inter-segment revenue								
Net interest income			412,470	411,865			412,470	411,865
Net fee and commission income							–	–
Net gain (loss) from trading							–	–
Others	111,996	65,438			1,634,943	732,467	1,746,939	797,905
Total inter-segment revenue	111,996	65,438	412,470	411,865	1,634,943	732,467	2,159,409	1,209,770
Total operating income	63,578,326	44,783,022	13,220,344	13,558,622	14,984,193	13,373,798	91,782,863	71,715,442
Total incurred expenses							(61,396,263)	(50,488,762)
Share of profits/(loss) of associates (Net of tax)								
Income tax expenses							(6,666,457)	(7,051,737)
Profit for the year							23,720,143	14,174,943
Non-controlling interest								
Profit for equity holders of the Bank								
Other comprehensive income net of tax								
Total comprehensive income								
Non-controlling interest								
Profit for the equity holders of the Bank								
Segment assets	1,354,278,016	1,051,000,534	711,968,532	702,910,359	581,393,988	476,207,772	2,647,640,536	2,230,118,665
Total assets	1,354,278,016	1,051,000,534	711,968,532	702,910,359	581,393,988	476,207,772	2,647,640,536	2,230,118,665
Segment liabilities	1,289,615,996	1,004,496,393	647,074,896	676,176,122	574,872,548	447,462,552	2,511,563,440	2,128,135,067
Total liabilities	1,289,615,996	1,004,496,393	647,074,896	676,176,122	574,872,548	447,462,552	2,511,563,440	2,128,135,067
Total equity and liabilities	1,354,278,016	1,051,000,534	711,968,532	702,910,359	581,393,988	476,207,772	2,647,640,536	2,230,118,665

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Leasing		Insurance		Travels		Unallocated		Eliminations		Group	
2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
14,168,431	13,349,357	651,855	551,229	6,123	8,456					96,874,779	74,430,959
1,376,968	1,092,439		–	–	–					9,047,350	7,333,743
64,169	142,835	73,252	53,305	–	–				–	(1,207,608)	2,785,261
(23,631)	21,745	4,881,147	5,104,248	6,807	6,522	(118,991)	–	–	–	5,995,063	6,285,845
15,585,937	14,606,376	5,606,254	5,708,782	12,930	14,978	(118,991)	–	–	–	110,709,584	90,835,808
(409,426)	(407,056)			(3,044)	(4,810)			–		–	–
								–	–	–	–
								–		–	–
110,530	120,069	299,713	201,742					(2,157,182)	(1,119,716)	–	–
(298,896)	(286,987)	299,713	201,742	(3,044)	(4,810)	–	–	(2,157,182)	(1,119,716)	–	–
15,287,041	14,319,389	5,905,967	5,910,524	9,886	10,170	(118,991)	–	(2,157,182)	(1,119,716)	110,709,584	90,835,808
(7,844,943)	(12,515,537)	(4,732,832)	(3,538,238)	(22,420)	(33,817)	–		522,239	387,249	(73,474,219)	(66,189,105)
										10,893	878
(2,301,820)	(1,116,214)	(109,332)	(391,035)	–	1,891					(9,158,609)	(8,557,095)
5,140,278	687,637	982,803	1,981,251	(12,534)	(21,757)	(118,991)	–	(1,634,943)	(732,467)	28,087,648	16,090,486
										1,736,673	860,628
										26,350,975	15,229,858
										12,786,691	(3,916,784)
										40,874,339	12,173,702
										1,768,436	386,248
										39,105,903	11,287,454
191,247,846	172,303,777	11,051,872	10,567,361	84,441	92,601			(17,414,707)	(12,515,011)	2,832,609,988	2,400,567,393
191,247,846	172,303,777	11,051,872	10,567,361	84,441	92,601	–	–	(17,414,707)	(12,515,011)	2,832,609,988	2,400,567,393
151,170,236	137,935,866	6,055,889	5,968,788	24,092	19,717			(13,841,885)	(10,602,810)	2,654,971,772	2,261,456,628
151,170,236	137,935,866	6,055,889	5,968,788	24,092	19,717	–	–	(13,841,885)	(10,602,810)	2,654,971,772	2,261,456,628
191,247,846	172,303,777	11,051,872	10,567,361	84,441	92,601			(17,414,707)	(12,515,011)	2,832,609,988	2,400,567,393

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48. NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Depreciation of property, plant and equipment	2,308,320	1,936,308	2,605,467	2,214,118
Amortisation of right-of-use asset	2,106,844	2,058,629	2,450,170	2,421,043
Amortisation of intangible assets	638,134	194,916	654,315	203,556
Fair value loss on revaluation of land and buildings	–	194,828	–	194,828
Depreciation of investment property	1,606	1,707	1,606	1,707
Impairment losses on financial assets	14,472,820	11,567,174	14,054,252	16,763,046
Other impairments	–	–	431,206	803,103
Profit on sale of fixed assets	(62,744)	(39,389)	(126,830)	(54,687)
Changes in derivative financial instruments	440,500	909,653	440,500	909,653
Changes in fair value of trading securities	101,474	183,629	101,474	183,629
Scrip dividend income	(1,634,943)	(732,467)	–	–
Share of (profits)/loss of associates and fair value loss on disposal	–	–	108,098	(878)
Premium amortisation of held-to-maturity investments	2,061,178	620,936	2,061,178	620,936
Interest expense on lease liabilities	583,020	719,619	767,602	898,675
Total	21,016,209	17,615,543	23,549,038	25,158,730

49. CHANGES IN OPERATING ASSETS

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Held at fair value through profit or loss	44,764,703	32,905,912	50,073,569	27,493,748
Net increase in balance with Central Bank	(42,521,255)	24,661,905	(42,521,255)	24,661,905
Net increase in placement with Bank	10,304,422	(615,290)	10,585,098	(515,464)
Net increase in loans and advances to banks	13,478,149	6,161,818	10,224,645	6,149,219
Net increase/(decrease) in financial investments FVOCI	(6,765,999)	(79,237)	(7,789,341)	(351,284)
Change in other assets	(11,041,378)	7,860,240	(10,298,882)	7,367,169
Total	8,218,642	70,895,348	10,273,834	64,805,293

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50. CHANGES IN OPERATING LIABILITIES

As at 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Changes in due to banks	(56,743,707)	(42,994,823)	(50,041,970)	(46,994,280)
Change in other borrowings	205,056,691	19,037,474	205,056,691	20,072,931
Change in other liabilities	(2,292,978)	(7,317,225)	26,453	(7,833,855)
Total	146,020,006	(31,274,574)	155,041,174	(34,755,204)

51. FINANCIAL RISK MANAGEMENT

Introduction

As a financial intermediary, the Bank is exposed to array of risks through its daily operations. The Bank's key risk exposures include credit, market, liquidity and operational risk. However, with the rapid technological innovations/IT based products & solutions introduced by the Bank, due consideration should be given to Information Systems risk as well. Proactive identification of such risk exposures is of high importance to ensure the sustainability and profitability of the Bank. In response to an increasingly dynamic and competitive operating landscape, evolving risks and significant regulatory developments, there is an ongoing imperative to enhance risk management continuously across the Bank. A robust risk management framework in place supports the efficient management and mitigation of the said risk exposure.

Risk management framework

Risk is identified and managed as part of a Group-wide Risk Management Framework. The Group's Board of Directors has ultimate responsibility for the oversight of risk, determining risk appetite levels, formulating risk policies and ensuring the effectiveness of the risk management processes and procedures in place. The BIRMC (Board Integrated Risk Management Committee) assists the Board in the discharge of its risk related duties and provides independent oversight of all risk related aspects by ensuring the adequacy and effectiveness of the implementation of risk governance structures, policy frameworks, standards and processes. Furthermore, the BECC (Board Executive Credit Committee), BAC (Board Audit Committee) and the BIBC (Board Investment Banking Committee) also support the Board in discharging its risk related duties. Executive committees namely, the ALCO (Assets and Liabilities Management Committee) and the ORMC (Operational Risk Management Committee) play a critical role in ensuring the effective implementation of the Bank's Risk management processes.

The People's Bank Group Risk Management Framework forms the foundation for managing risk, and sets out the Group's risk universe, risk parameters and assigns executive and board responsibility for the management and oversight of risk and ensures that growth and risk considerations are appropriately balanced. Policies and systems associated with the Risk Management framework are reviewed on a regular basis to factorise the adversities in market conditions and the changes in Group's activities

The framework is based on the three lines of defense model specifically, the Business Line, Risk Management and Internal Audit.

Risk appetite

The term "Risk Appetite" refers to the broad types and quantum of risk the People's Bank Group is willing to undertake in implementing its business strategy. It is expressed in the form of tolerance limits and risk trigger points across a range of variables. The Board of Directors has ultimate responsibility for setting the Risk Appetite of the Group and ensure that the exposures and risks are maintained within that approved levels.

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Risk mitigation

As part of its overall risk management, the Bank obtains various types of collateral and establishes maximum prudential limits.

Risk Management and Credit Control Department

The Risk Management and Credit Control Department (RM & CC) holds overall executive responsibility for the Bank's risk management functions. It is headed by the Chief Risk Officer (DGM-Risk Management) who reports directly to BIRMC and operates independently of business units as well as profit and volume targets. Four separate units (Credit Pre-Review unit, Credit Review unit, Treasury Middle Office and Operational Risk) have been established under the RM & CC with specific responsibilities for handling Credit, Market and Operational Risks.

Credit risk

Credit risk is the risk of potential loss to the Bank, if a borrower or counterparty to a financial instrument fails to meet their financial or contractual obligations, and arises principally from the Bank's loans and advances to customers/other banks and investments in debt securities. In addition to the credit risk from direct funding exposures, the Bank would also be exposed to indirect liabilities such as letters of credit, guarantees etc., which would carry credit risk. Credit risk is composed of default risk/settlement risk, concentration risk and counterparty risk.

The Board Executive Credit Committee (BECC) functions as the steering committee holding overall responsibility for implementing the Bank's credit risk management framework. The Credit Control Unit operates independently from the business lines and drives all credit risk management efforts. The primary responsibility for managing credit risk lies with the business units, complemented by independent review by the Credit Control Unit.

Key aspects of the Group's credit policies include delegated approval authority at multiple levels, a comprehensive credit appraisal mechanism which includes well-defined credit criteria and prudential limits in line with the defined risk appetite among others. Borrowers are assessed primarily on repayment capacity and internally developed risk rating scorecards and a 9-point rating scale is used for evaluating credit worthiness.

Tailor-made scorecards have been developed for assessing corporates, SME borrowers' financial institutions as well as retail borrowers. The internal credit rating models in place represent diverse risk factors and are able to predict the probability of default and loss given default.

Impairment assessment

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes more than 90 days past or three instalments in arrears due on its contractual payments or when classified as Non-Performing Loan(NPL) as per directions issued by the Central Bank of Sri Lanka (CBSL). The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

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Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis if there is any objective evidence of a potential loss. The Bank has currently set individually significant threshold at LKR 25 Mn. and every customer having an aggregate exposure above that limit is individually assessed for objective evidence of incurred loss. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually assessed. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as loan types, industry codes, and level of arrears). The Bank applies a three-stage approach to measure expected credit losses (ECLs). Financial assets migrate through the following three stages based on the change in credit risk since initial recognition.

Stage 1: 12 month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised. Bank determines 12 month ECL for customers who are not significantly credit deteriorated (i.e. less than or equal to 30 days past due).

Stage 2: Lifetime ECL – not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised. In consistent with the policies of the Bank, significant deterioration is measured with the rebuttable presumption of 30 days past due other than the credit facilities categorised under Stage 3, in line with the requirements of the standard. Bank also has considered all restructured loans, which are restructured up to two times, other than credit facilities/exposures upgraded from a higher stage to a lower stage under stage 2 as per the guidance issued by the Central Bank of Sri Lanka.

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount. Bank determines credit facilities where contractual payment of customer is more than 90 days past due subject to the rebuttable presumption as stated in SLFRS 9 together with all NPL classifications as per Central Bank of Sri Lanka classification, all restructured loans which are restructured more than twice and all rescheduled loans other than credit facilities/exposures upgraded from a higher stage to a lower stage.

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	2021 LKR '000	2020 LKR '000
Individually significant impaired loans		
Amortised cost	125,004,857	97,183,340
Allowances for impairment	(64,681,231)	(58,223,125)
Carrying amount as at 31 December	60,323,626	38,960,215
Collectively assessed loans		
Amortised cost	1,811,969,279	1,626,282,602
Allowances for impairment	(36,595,796)	(29,663,474)
Carrying amount as at 31 December	1,775,373,482	1,596,619,128

PD estimation process

Probability of Default is the estimate of the likelihood of default over a given time horizon. PD estimation for loans and advances to other customers under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers. Accordingly, exposures are categorised among 5 groups based on the DPD as follows:

- Zero days past due
- 1-30 days past due
- 31-60 days past due
- 61-90 days past due
- Above 90 days past due

The 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. The Bank uses Credit Conversion Factors(CCF) which explains the historical utilisation of defaulted facilities at the time of default to calculate the EAD of revolving facilities in which customers have the ability to increase their exposure. For non-revolving facilities, already utilised amount plus any undisbursed amount and accrued interest over same is considered as EAD.

Loss Given Default (LGD)

Loss given default (LGD) is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g. product type, wider range of collateral types) as well as borrower characteristics.

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For each year, closed contracts which have crossed the Above 90 days at least once in their lifetime are considered. LGD will factor in all cash flows subsequent to the point of default until the full settlement of the loan. Virtually closed contracts are also added to this data set. Virtually closed contracts are active loans which have been long outstanding. A contract is determined to be virtually closed at the point the Bank determines that the cash flows have dried up.

Analysis of the total impairment for expected credit losses

As at 31 December		2021			
	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	17.4	184	7,918	–	8,103
Placements with banks	19.2	–	–	–	–
Loans and receivables to banks	22.2	235,379	–	–	235,379
Loans and receivables to other customers	23.2	8,056,985	9,990,853	83,229,190	101,277,028
Debt instruments at amortised cost	24.2	1,334,468	–	–	1,334,468
Debt instruments at fair value through OCI	26.2	1,053	296,009	–	297,062
Total impairment for expected credit losses		9,628,069	10,294,780	83,229,190	103,152,039

As at 31 December		2020			
	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	17.4	888	2,816	–	3,704
Placements with banks	19.2	31,033	–	–	31,033
Loans and receivables to banks	22.2	101,674	–	–	101,674
Loans and receivables to other customers	23.2	6,419,888	3,533,121	77,933,591	87,886,600
Debt instruments at amortised cost	24.2	272,621	–	–	272,621
Debt instruments at fair value through OCI	26.2	327	296,009	–	296,336
Total impairment for expected credit losses		6,826,431	3,831,946	77,933,591	88,591,968

Analysis of ECL Model under multiple economic scenarios

ECLs must reflect an unbiased and probability weighted estimate of credit losses over the expected life of the financial instrument. The main objective of the probability weighted economic estimates is to convert the historical statistics into more futuristic indicators. Also Primarily Economic factor adjustment is used to convert the Through the Cycle (TTC) PD in to Point in Time (PiT) PDs.

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The following table outlines the impact of multiple economic scenarios on the allowance for impairment on financial assets:

As at 31 December	2021 Expected credit loss on loans and advances LKR '000
Scenario A – Actual	
Base case – 20%, Upside – 20%, Downside – 60%	36,595,796
Scenario B	
Base case – 15%, Upside – 15%, Downside – 70%	36,832,973
Change in impairment allowance – Increase/(Decrease) – (B – A)	237,176
Scenario A – Actual	
Base case – 20%, Upside – 20%, Downside – 60%	36,595,796
Scenario B	
Base case – 25%, Upside – 25%, Downside – 50%	36,233,057
Change in impairment allowance – Increase/(Decrease) – (B – A)	362,739

As at 31 December	2020 Expected credit loss on loans and advances LKR '000
Scenario A – Actual	
Base case – 30%, Upside – 30%, Downside – 40%	29,663,474
Scenario B	
Base case – 25%, Upside – 25%, Downside – 50%	29,879,364
Change in impairment allowance – Increase/(Decrease) – (B – A)	215,890
Scenario A – Actual	
Base case – 30%, Upside – 30%, Downside – 40%	29,663,474
Scenario B	
Base case – 35%, Upside – 35%, Downside – 30%	29,447,078
Change in impairment allowance – Increase/(Decrease) – (B – A)	(216,396)

Analysis of inputs to the ECL model under multiple economic scenarios

The Bank obtains the data from reliable third party sources such as CBSL, International Monetary Fund and/or World Bank in all instances where such projections are available. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2020 and 2021.

The tables show the values of key forward looking economic variables/assumptions used in each of the economic Scenarios for the ECL calculations.

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As at 31 December			2021						
Key drivers	ECL scenario	Assigned probabilities	2022	2023	2024	2025	2026	2027	2028
GDP growth	Best Case	20%	4.35%	4.53%	4.72%	4.91%	4.99%	4.99%	4.99%
	Base Case	20%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%
	Worst Case	60%	0.00%	0.00%	0.49%	1.52%	0.46%	0.46%	0.46%
Inflation (YoY average)	Best Case	20%	11.16%	10.94%	10.72%	10.50%	10.02%	10.02%	10.02%
	Base Case	20%	12.10%	12.10%	12.10%	12.10%	12.10%	12.10%	12.10%
	Worst Case	60%	12.78%	13.40%	13.79%	13.79%	13.79%	13.79%	13.79%
Interest rate (PLR)	Best Case	20%	8.11%	7.99%	7.80%	7.54%	7.29%	7.29%	7.29%
	Base Case	20%	8.33%	8.33%	8.33%	8.33%	8.33%	8.33%	8.33%
	Worst Case	60%	8.93%	9.26%	9.51%	9.67%	9.71%	9.71%	9.71%
Exchange rate – (USD:LKR)	Best Case	20%	208.07	213.53	219.13	224.88	230.78	236.84	243.05
	Base Case	20%	217.08	232.43	248.85	266.45	285.28	305.44	327.03
	Worst Case	60%	242.03	288.92	344.90	350.00	350.00	350.00	350.00
Unemployment (Percentage of labour force)	Best Case	20%	5.66%	5.64%	5.61%	5.57%	5.52%	5.52%	5.52%
	Base Case	20%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%
	Worst Case	60%	5.80%	5.85%	5.88%	5.91%	5.91%	5.91%	5.91%

As at 31 December			2020						
Key drivers	ECL scenario	Assigned probabilities	2021	2022	2023	2024	2025	2026	2027
GDP growth	Best case	30%	4.73%	5.17%	6.29%	6.93%	7.11%	7.11%	7.11%
	Base case	30%	3.00%	3.94%	4.45%	4.94%	4.96%	4.96%	4.96%
	Worst case	40%	-2.91%	-1.39%	0.02%	1.33%	0.02%	0.02%	0.02%
Inflation (YoY average)	Best case	30%	4.28%	4.39%	4.50%	4.60%	4.36%	4.36%	4.36%
	Base case	30%	5.39%	5.86%	6.18%	6.01%	6.02%	6.02%	6.02%
	Worst case	40%	6.56%	6.71%	6.86%	7.02%	7.09%	7.09%	7.09%
Interest rate (PLR)	Best case	30%	6.24%	6.15%	5.99%	5.78%	5.58%	5.58%	5.58%
	Base case	30%	6.56%	6.63%	6.63%	6.57%	6.50%	6.50%	6.50%
	Worst case	40%	6.91%	7.17%	7.38%	7.51%	7.55%	7.55%	7.55%
Exchange rate – (USD:LKR)	Best case	30%	189.5	193.6	197.7	201.9	206.3	210.7	215.2
	Base case	30%	197.1	209.3	222.3	236.1	250.8	266.4	282.9
	Worst case	40%	221.5	264.4	315.6	350.0	350.0	350.0	350.0
Unemployment (Percentage of labour force)	Best case	30%	5.37%	5.36%	5.34%	5.31%	5.28%	5.28%	5.28%
	Base case	30%	5.42%	5.43%	5.43%	5.42%	5.41%	5.41%	5.41%
	Worst case	40%	5.46%	5.50%	5.52%	5.54%	5.54%	5.54%	5.54%

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Collateral and other credit enhancements

Net exposure to credit risk

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. We adopt a stringent approach towards collateral valuation, and these are regularly reviewed and updated to ensure that valuations reflect market conditions. Relatively diverse collateral portfolio of the Bank mitigates the impact of potential price drops in a particular asset class.

The main types of collateral obtained are as follows:

- For commercial lending-charges over real estate properties, trade receivables, inventory, corporate and personal guarantees.
- For retail lending-mortgage over residential properties, personal guarantees.

The following tables show the maximum exposure and net exposure (net of fair value of any collaterals held) to credit risk by class of financial asset:

As at 31 December	2021	
	Maximum exposure to credit risk LKR '000	Net exposure LKR '000
Cash and cash equivalents	57,538,351	3,198,756
Derivative financial instruments	441,877	441,877
Financial assets at fair value through profit or loss	1,558,850	1,558,850
Loans and receivables to banks	10,131,952	10,131,952
Loans and receivables to other customers	1,835,697,108	583,442,642
Equity instruments at fair value through OCI	1,621,375	1,621,375
Debt instruments at fair value through OCI	9,399,272	9,399,272
Debt instruments measured at amortised cost	587,320,182	587,320,182
Total	2,503,708,967	1,197,114,906

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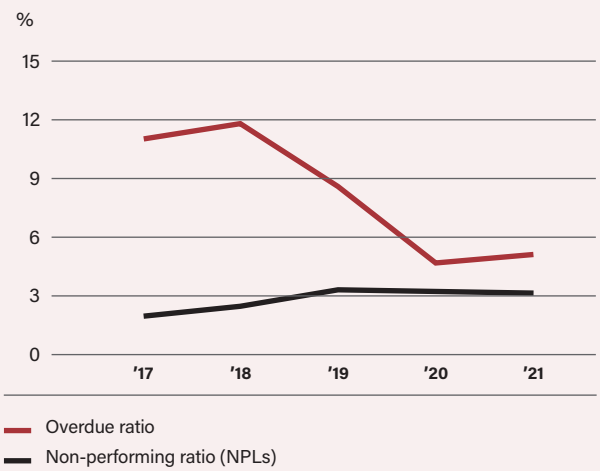
As at 31 December	2020	
	Maximum exposure to credit risk LKR '000	Net exposure LKR '000
Cash and cash equivalents	71,461,242	25,678,690
Placements with banks	10,304,422	10,304,422
Derivative financial instruments	97,645	97,645
Financial assets at fair value through profit or loss	46,425,027	46,425,027
Loans and receivables to banks	23,610,101	12,460,363
Loans and receivables to other customers	1,635,579,343	501,488,775
Equity instruments at fair value through OCI	1,937,778	1,937,778
Debt instruments at fair value through OCI	2,632,231	2,632,231
Debt instruments measured at amortised cost	357,107,701	357,107,701
Total	2,149,155,490	958,132,632

Credit quality analysis

Credit indicator	2017	2018	2019	2020	2021
Non- performing ratio NPLs	2%	3%	3%	3%	3%
Overdue ratio %	11%	12%	9%	5%	5%
Provision Coverage	98%	72%	60%	65%	75%
Industry Average NPLs	3%	3%	5%	5%	5%

ANALYSIS OF NPL AND OVERDUE RATIO



Concentration of credit risk

Concentration risk stems from high lending exposure to a particular sector, product, region or customer/group. The Bank's risk appetite clearly defines exposure limits for particular sectors and products and such limits are reviewed and modified in the context of emerging risks and opportunities presented by the operating landscape. In addition to adherence to the Single Borrower Limit, the Bank also uses Herfindahl-Hirschman Index (HHI) to monitor and control concentrations. These limits are monitored by the Risk Management Department, BIRMC and Board on a regular basis.

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An analysis of risk concentration by industry for the financial assets is given below:

As at 31 December	2021			
	Government	Commercial	Financial	Agricultural
	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets				
Cash and cash equivalents	–	–	57,546,454	–
Balances with Central Bank of Sri Lanka	56,717,820	–	–	–
Placement with banks	–	–	–	–
Derivative financial instruments	–	–	441,877	–
Financial assets – at fair value through profit and loss	1,276,679	78,628	–	28,654
Loans and receivables to banks	10,367,331	–	–	–
Loans and receivables to other customers	937,171,494	139,344,565	22,061,003	12,554,843
Debt instruments measured at amortised cost	588,654,650	–	–	–
Equity instruments at fair value through OCI	–	586,333	605,977	–
Debt instruments at fair value through OCI	2,933,180	2,361,096	3,561,993	–
Total	1,597,121,154	142,370,623	84,217,304	12,583,497

As at 31 December	2020			
	Government	Commercial	Financial	Agricultural
	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets				
Cash and cash equivalents	–	–	71,464,946	–
Balances with Central Bank of Sri Lanka	14,196,565	–	–	–
Placement with banks	–	–	10,335,455	–
Derivative financial instruments	–	–	97,645	–
Financial assets – at fair value through profit and loss	46,162,420	108,662	–	36,488
Loans and receivables to banks	12,460,363	–	11,251,412	–
Loans and receivables to other customers	844,801,266	126,401,392	21,370,178	12,115,009
Debt instruments measured at amortised cost	357,380,322	–	–	–
Equity instruments at fair value through OCI	–	439,750	1,079,652	–
Debt instruments at fair value through OCI	318	2,376,803	255,110	–
Total	1,275,001,254	129,326,607	115,854,398	12,151,497

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2021							
Industrial	Tourism	Housing and property development	Consumption	Services	Other	ECL	Total
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
–	–	–	–	–	–	(8,103)	57,538,351
–	–	–	–	–	–	–	56,717,820
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	441,877
88,535	–	–	11,100	75,254	–	–	1,558,850
–	–	–	–	–	–	(235,379)	10,131,952
39,932,024	24,222,254	413,019,029	308,782,555	13,340,652	26,545,718	(101,277,028)	1,835,697,108
–	–	–	–	–	–	(1,334,468)	587,320,182
–	–	–	–	429,065	–	–	1,621,375
–	–	–	–	543,003	–	–	9,399,272
40,020,559	24,222,254	413,019,029	308,793,655	14,387,973	26,545,718	(102,854,977)	2,560,426,787

2020							
Industrial	Tourism	Housing and property development	Consumption	Services	Other	ECL	Total
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
–	–	–	–	–	–	(3,704)	71,461,242
–	–	–	–	–	–	–	14,196,565
–	–	–	–	–	–	(31,033)	10,304,422
–	–	–	–	–	–	–	97,645
40,418	–	–	–	77,038	–	–	46,425,027
–	–	–	–	–	–	(101,674)	23,610,101
30,517,974	23,975,431	350,728,450	272,989,118	12,087,949	28,479,174	(87,886,600)	1,635,579,342
–	–	–	–	–	–	(272,621)	357,107,701
271	–	16	–	418,089	–	–	1,937,778
–	–	–	–	–	–	–	2,632,231
30,558,663	23,975,431	350,728,467	272,989,118	12,583,076	28,479,174	(88,295,632)	2,163,352,054

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Liquidity risk

Liquidity risk is the potential loss of earnings/erosion of capital arising from the inability to meet the Bank's contractual financial obligations as and when they fall due. Banks are vulnerable to liquidity and solvency problems resulting from asset and liability mismatches. The management of such risks are a vital element of the Bank's operations.

The Bank's Liquidity Risk Management Framework aims to assess/quantify and ensure the availability of funds required to meet Bank's contractual obligations at appropriate times. This is ensured under both normal and stressed conditions. The Bank's Treasury is entrusted to manage the liquidity risk and the Risk Management Department ensures same by monitoring the adherence to set limits/regulatory ratios etc; and performing other related analysis. ALCO on the other hand, oversee the management of same by continuously monitoring the Bank's liquidity position to ensure that compliance to internal targets as well as regulatory requirements is met.

The Bank measures liquidity through the dual approaches of flow and stock. The flow method measures liquidity through analysing the mismatch between inflows and outflows in various time bands based on the maturity of assets and liabilities. The stock method measures liquidity in terms of a set of key ratios such as loans to deposit ratio, commitments ratio (unutilised portion of overdrafts/unutilised inter-bank lines), statutory liquid asset ratio and cumulative mismatches.

Maturity profile of assets and liabilities as at 31 December 2021

	Up to 3 months LKR '000	3-12 months LKR '000	1-3 years LKR '000	3-5 years LKR '000	Over 5 years LKR '000	Total 2021 LKR '000	Total 2020 LKR '000
Assets							
Cash and cash equivalents	57,538,351	–	–	–	–	57,538,351	71,461,242
Balances with Central Bank of Sri Lanka	38,231,094	17,586,609	714,228	97,376	88,512	56,717,819	14,196,565
Placements with banks	–	–	–	–	–	–	10,304,422
Derivative with banks	441,877	–	–	–	–	441,877	97,645
Financial Assets – At Fair Value through Profit or Loss	1,558,850	–	–	–	–	1,558,850	46,425,027
Loans and receivables to banks	1,319,609	2,727,751	972,224	1,042,895	4,069,473	10,131,952	23,610,101
Loans and receivables to other customers	239,085,479	494,211,265	176,146,640	188,950,617	737,303,107	1,835,697,108	1,635,762,783
Debt instrument measured at amortised cost	27,080,992	14,988,788	1,236,000	–	544,014,403	587,320,182	357,107,701
Equity instruments at fair value through OCI	1,621,375	–	–	–	–	1,621,375	1,937,778
Debt instruments at fair value through OCI	9,399,272	–	–	–	–	9,399,272	2,632,231
Investments in subsidiaries					3,572,824	3,572,824	1,937,881
Investment properties	–	–	–	–	–	–	–
Property, plant and equipment	–	–	–	–	–	–	1,261,338
Intangible assets and goodwill	–	–	–	–	46,761,157	46,761,157	38,405,839
Net deferred tax assets	–	–	–	–	2,077,544	2,077,544	702,181
Other assets	31,704,575	1,653,877	298,852	707,661	437,260	34,802,225	23,763,947
Total assets 2021	407,981,474	531,168,289	179,367,944	190,798,549	1,338,324,279	2,647,640,536	–
Total assets 2020	484,547,457	554,902,746	181,716,098	378,844,280	630,108,084	–	2,230,118,665

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	Up to 3 months LKR '000	3-12 months LKR '000	1-3 years LKR '000	3-5 years LKR '000	Over 5 years LKR '000	Total 2021 LKR '000	Total 2020 LKR '000
Liabilities							
Due to banks	41,916,852	7,611,564	8,029,197	6,021,898	44,166,405	107,745,916	164,489,623
Derivative with banks	1,761,220	–	–	–	–	1,761,220	976,486
Due to other customers	1,396,332,891	642,324,306	26,086,114	3,556,524	3,232,777	2,071,532,612	1,835,099,456
Other borrowings	232,444,673	6,853,583	2,120,869	–	–	241,419,125	36,362,434
Debt securities issued	–	–	–	–	–	–	–
Current tax liabilities	6,452,823	–	–	–	–	6,452,823	6,608,202
Net deferred tax liabilities	–	–	–	–	2,687,330	2,687,330	–
Other liabilities	13,347,055	15,152,673	2,460,795	142,211	–	31,102,734	41,041,170
Subordinated term debts	–	12,535,684	6,679,516	13,559,773	16,086,707	48,861,680	43,557,696
Stated capital/assigned capital	–	–	–	–	12,201,998	12,201,998	12,201,998
Statutory reserve fund	–	–	–	–	9,210,528	9,210,528	8,024,521
Other reserve	–	–	–	–	35,902,287	35,902,287	32,859,237
Retained earnings	–	–	–	–	78,762,283	78,762,283	48,897,842
Total liabilities 2021	1,692,255,514	684,477,810	45,376,491	23,280,406	202,250,315	2,647,640,536	–
Total liabilities 2020	687,520,150	687,425,237	206,752,147	194,007,947	454,413,183	–	2,230,118,665
NET 2021	(1,284,274,039.5)	(153,309,520.8)	133,991,452.7	167,518,143.1	1,136,073,964.5	–	–
NET 2020	(202,972,693)	(132,522,491)	(25,036,049)	184,836,333	175,694,901	–	–
Total equity and liabilities 2021	407,981,474	531,168,289	179,367,944	190,798,549	1,338,324,279	2,647,640,536	–
Total equity and liabilities 2020	484,547,457	554,902,746	181,716,098	378,844,280	630,108,084	–	2,230,118,665

Maturity profile of the undiscounted cash flows of financial liabilities as at 31 December

Financial liabilities	2021 On demand LKR '000	Less than 3 months LKR '000	3-12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Due to banks	2,246,656	39,712,142	7,651,084	15,424,225	53,027,813	118,061,919
Derivative financial instruments	–	64,832,341	25,347,644	12,508,890	5,957,093	108,645,969
Due to other customers	874,991,271	539,620,591	647,376,012	31,234,687	3,853,191	2,097,075,752
Other borrowings	–	258,965,193	6,947,878	7,912,781	–	273,825,852
Subordinated term debts	–	332,500	17,441,843	31,209,750	20,769,033	69,753,125
Total undiscounted financial liabilities	877,237,927	903,462,766	704,764,460	98,290,334	83,607,130	2,667,362,617

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Maturity profile of the undiscounted cash flows of financial liabilities as at 31 December

Financial liabilities	2020					
	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Due to banks	1,425,828	65,547,464	59,132,298	–	48,546,904	174,652,494
Derivative financial instruments	–	113,349,038	5,726,151	–	–	119,075,188
Due to other customers	754,489,125	436,066,565	600,930,992	43,928,115	–	1,835,414,798
Other borrowings	–	20,079,884	8,292,325	8,004,351	–	36,376,561
Subordinated term debts	–	–	4,799,343	52,560,310	4,279,065	61,638,718
Total undiscounted financial liabilities	755,914,953	635,042,951	678,881,109	104,492,776	52,825,969	2,227,157,759

Market risk

Market risk is potential losses arising from changes in earnings, market or future cash flows of a portfolio of financial instruments resultant from adverse movements in market variables such as interest rates, share prices, foreign exchange rates and bond and commodity prices. Most of the Bank's operations are exposed to at least one or more elements of market risk. The market risk stems primarily from the interest rate risk of its trading and non-trading books and from exposure to gold prices due to its pawning portfolio.

At Board level, exposure to market risk is monitored by the BIRMC which is also responsible for providing recommendations to the Board on the Bank's market risk management framework, policies and risk appetite limits. The ALCO is vested with the responsibility of implementing the market risk management framework at an executive level and ensures that the Bank's market risk exposures are within the defined risk appetite. Policies governing the Bank's market risk include Treasury policy and policy on stress testing. These frameworks collectively provide guidance on the systems, procedures, tools and techniques for the identification, assessment, mitigation, monitoring and reporting on all market related risks. The policies are reviewed and updated regularly in view of emerging market risks. The management of market risk is entrusted to the Bank's Treasury and Risk Management ensures the same through its monitoring and analysis.

The principal tool used to measure and control market risk exposure within the Bank's trading portfolio is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based on a 99% confidence level and assumes a 1 day holding period. The VaR model used is based mainly on variance co variance method.

The Bank uses VaR limits to monitor and manage the market risk, specifically foreign exchange and interest rate. The overall structure of VaR limits is subject to review and approval by BIRMC. VaR limits are allocated to trading portfolios. VaR is measured and monitored against its limits at least daily by the Treasury Middle office, which is attach to the Risk Management Department.

Interest rate risk

Interest rate risk is the potential loss to earnings and capital resulting from the Bank's exposure to interest rate sensitive assets. The market value of such assets fluctuates in line with changes in interest rates and credit spreads. The Bank's exposure to interest rate risk arises from its lending portfolio, trading securities and deposit liabilities.

Techniques used to measure interest rate risk include Duration Gap Analysis, VaR and Earnings at Risk. Rate sensitive assets and liabilities are mapped into time buckets based on their maturity period, in order to ascertain the duration gap and overall exposure to interest rate risk.

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Foreign exchange risk

Foreign exchange risk (FOREX) is the potential impact to earnings and/or capital stemming from adverse fluctuations in exchange rates. Such exposure of the Bank stems from proprietary trading and from undertaking transactions denominated in foreign currency namely, import/export transactions and remittances etc.

The Bank also conducts VaR calculations and stress testing on the portfolios subject to forex risk. Parallel VaR calculations are performed by the Bank's Treasury Management System (based on Finacle) and the Bloomberg system. Stress testing is performed by applying rate shocks in order to gauge the potential impact on the Bank's profitability and capital adequacy levels.

Equity risk

Equity risk arises from exposures to changes in fluctuations in the value of equity investments held by the Bank. This arises primarily from its fair value through profit or loss and fair value through OCI investment portfolio and excludes strategic investments by the Bank in subsidiaries.

The BIBC (Board Investment Banking Committee) is responsible for formulating all investment related policies and ensuring that the Bank's investment risks are managed in line with its defined risk appetite. The Board approved Investment Banking Policy Manual clearly articulates the procedures, tools and techniques for managing equity risk as well as volume and stop loss limits.

Operational risk

Operational risk is the risk of losses arising from failed internal processes, systems failure, human error, fraud or external events. Operational risks exist in the natural course of business activities, products and processes. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Operational Risks cannot be fully eliminated. However Bank objective is to contain it within acceptable levels as determined by Bank's Board of Directors.

The Bank's Operational Risk management framework clearly articulates the policies, structures and processes in place to manage the different types of operational risk exposures. The Board of Directors, supported by the BIRMC is responsible for formulating policy and ensuring the robustness of the operational risk management framework. Loss events are recorded and periodically reported through the Risk Management Unit to the Operational Risk Management Committee (ORMC).Meanwhile, Internal Audit also provides assurance to the Board on the effectiveness on the operational risk management processes in place.

Capital Adequacy and Internal Capital Adequacy Assessment Process (ICAAP)

Capital Adequacy

The capital adequacy is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted assets. The capital adequacy ratio is known as capital-to-risk weighted assets. Sound Capital Adequacy protects rights of the depositors and ensures the stability and efficiency of the bank. Two types of capital measurements are imposed by the CBSL under Basel guidelines which are tier-1 capital and tier-2 capital requirements which can absorb losses to protect the rights of depositors and stakeholders.

Internal Capital Adequacy Assessment Process (ICAAP)

Under ICAAP the Bank has in place internal procedures and processes to ensure that it possesses adequate capital resources in the long term to cover all of its material risks. These processes and procedures are known as the Internal Capital Adequacy and Assessment Process (ICAAP). ICAAP report is prepared by the Risk Management Department, in coordination with the Finance and Compliance Departments and has been subject to review by the Bank's Internal Audit Dept., and recommended by the BIRMC for approval of the Board. ICAAP determines the level of capital to be maintained against all risks and ensure that banks have adequate capital to support all risks and ensure that banks use ICAAP in more general business decisions and budgets, in more specific decisions such as allocating capital to business units and when evaluating individual credit decision process.

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Capital Management

The Bank's capital management framework has been designed taking into consideration regulatory requirements on capital as well as future growth aspirations and funding options available to the Bank.

The Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions based on the Basel framework. Since 1 July 2017, the Bank is required to comply with Basel III Guidelines. According to Basel III framework the Bank is required to maintain a CAR of not less than 8.5% with core capital (Tier I) and a minimum overall CAR of 12.5% as at 31 December 2021.

The details of the computation of the capital and the ratios as at 31 December 2021 and 31 December 2020 are given below for the Bank and Group:

CAPITAL ADEQUACY - BANK

Computation of risk weighted assets

	Bank				
	Balance		Risk weight	Risk weighted balance	
As at 31 December	2021 LKR '000	2020 LKR '000	%	2021 LKR '000	2020 LKR '000
Assets					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	1,354,465,725	978,894,070	0-20	35,604,738	50,625,977
Claims on foreign sovereigns and their central banks	–	–	0-150	–	–
Claims on Public Sector Entities (PSEs)	100,589,395	131,502,915	10-150	53,020,647	78,134,064
Claims on official entities and Multilateral Development Banks (MDBs)	–	–	0-150	–	–
Claims on banks	3,190,653	28,412,420	20-150	717,677	11,701,070
Claims on financial institutions	5,123,471	4,454,573	20-150	2,941,131	2,708,497
Claims on corporates	157,967,132	140,063,928	20-150	150,152,558	134,025,919
Retail claims	510,921,541	442,421,693	60-100	399,782,395	348,331,918
Claims secured by gold	194,769,226	174,814,192	20-100	1,387,067	17,229
Claims secured by residential property	61,873,841	62,191,796	35-100	21,655,844	31,095,898
Claims secured by commercial real estate	–	–	100	–	–
Non-performing assets (NPAs)	28,758,273	25,147,190	100-150	38,577,961	30,241,399
Higher risk categories	1,076,316	816,645	150-250	2,690,789	2,041,612
Cash items	55,766,424	46,023,864	0-20	283,745	47,522
Property, plant and equipment	46,761,161	39,667,178	100	46,761,161	39,667,178
Other assets	15,025,979	15,017,158	100	15,025,979	15,017,158
Total	2,536,289,138	2,089,427,622		768,601,693	743,655,441

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Above risk weighted assets include the credit equivalent of off-balance Sheet exposures illustrated below:

Off-balance sheet exposures

	Bank				
	Balance			Credit equivalent	
Off-balance sheet exposures	2021 LKR '000	2020 LKR '000	Credit conversion factor %	2021 LKR '000	2020 LKR '000
Instruments					
Direct credit substitutes	24,129,532	20,991,955	100	24,129,532	20,991,955
Transaction-related contingencies	37,801,675	41,129,235	50	18,900,837	20,564,618
Short-term self-liquidating trade-related contingencies	144,962,298	99,190,395	20	28,992,460	19,838,079
Sale and repurchase agreements and assets sale with recourse where the credit risk remains with the Bank	–	–	100	–	–
Obligations under an ongoing underwriting agreement	–	–	50	–	–
Other commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time	–	–	0-20	–	–
Commitments with an original maturity up to one year	62,815,181	65,568,079	20	12,563,036	13,113,616
Other commitments with an original maturity of over one year	–	–	50	–	–
Foreign exchange contracts	111,769,016	114,970,306	0-5	2,235,380	2,299,406
Interest rate contracts			0-3		
Total	381,477,702	341,849,970		86,821,245	76,807,674

Computation of capital

	Bank	
	2021 LKR '000	2020 LKR '000
Common equity Tier I (CET1) capital	104,747,717	79,604,100
Total Tier I capital	109,747,717	79,604,100
Total capital	155,798,954	129,271,791
Computation of ratios		
Total risk-weighted assets for credit risk	768,601,693	743,655,441
Total risk-weighted assets for market risk	9,947,942	5,591,325
Total risk-weighted assets for operational risk	95,120,162	86,277,034
Total risk-weighted assets	873,669,797	835,523,800
Common equity Tier I (CET1) capital ratio (Minimum requirement 7.0%)	11.99	9.53
Total Tier I capital (Tier I) (Minimum requirement 8.5%)	12.56	9.53
Total capital ratio (Minimum requirement 12.5%)	17.83	15.47

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CAPITAL ADEQUACY - GROUP

Computation of risk weighted assets

	Group				
	Balance		Risk weight	Risk weighted balance	
As at 31 December	2021 LKR '000	2020 LKR '000	%	2021 LKR '000	2020 LKR '000
Assets					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	1,370,148,563	987,144,585	0-20	35,604,738	50,625,977
Claims on foreign sovereigns and their central banks	–	–	0-150	–	–
Claims on Public Sector Entities (PSEs)	100,311,723	131,502,915	10-150	52,742,976	78,134,064
Claims on official entities and Multilateral Development Banks (MDBs)	–	–	0-150	–	–
Claims on banks	3,190,653	31,938,007	20-150	717,677	12,417,381
Claims on financial institutions	8,689,199	5,122,660	20-150	6,506,859	3,119,119
Claims on corporates	160,698,092	141,447,901	20-150	152,883,518	135,409,892
Retail claims	663,192,297	573,554,336	60-100	552,053,151	479,464,562
Claims secured by gold	194,769,226	174,814,192	20-100	1,387,067	17,229
Claims secured by residential property	61,873,841	62,191,796	35-100	21,655,844	31,095,898
Claims secured by commercial real estate	–	–	100	–	–
Non-performing assets (NPAs)	31,479,469	34,666,518	100-150	41,299,157	39,760,727
Higher risk categories	–	–	150-250	–	0
Cash items	56,824,902	46,874,558	0-20	283,745	47,522
Property, plant and equipment	56,432,297	49,359,365	100	56,432,297	49,359,365
Other assets	16,266,619	16,782,844	100	16,266,619	16,782,844
Total	2,723,876,883	2,255,399,677		937,833,649	896,234,580

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Above risk-weighted assets include the credit equivalent of off-balance sheet exposures illustrated below:

Off-balance sheet exposures

	Group				
	Balance			Credit equivalent	
Off-balance sheet exposures	2021 LKR '000	2020 LKR '000	Credit conversion factor %	2021 LKR '000	2020 LKR '000
Instruments					
Direct credit substitutes	24,129,532	20,991,955	100	24,129,532	20,991,955
Transaction-related contingencies	37,801,675	41,129,235	50	18,900,837	20,564,618
Short-term self-liquidating trade-related contingencies	144,962,298	99,190,395	20	28,992,460	19,838,079
Sale and repurchase agreements and assets sale with recourse where the credit risk remains with the Bank	–	–	100	–	–
Obligations under an ongoing underwriting agreement	–	–	50	–	–
Other commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time	–	–	0-20	–	–
Commitments with an original maturity up to one year	76,469,981	72,487,943	20	15,293,996	14,497,589
Other commitments with an original maturity of over one year	–	–	50	–	–
Foreign exchange contracts	111,769,016	114,970,306	0-5	2,235,380	2,299,406
Interest rate contracts			0-3		
Total	395,132,502	348,769,834		89,552,205	78,191,646

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Computation of capital

	Group	
	2021 LKR '000	2020 LKR '000
Common Equity Tier I (CET I) capital	138,667,285	109,596,440
Total Tier I capital	143,667,285	109,596,440
Total capital	191,833,922	160,292,747
Computation of ratios		
Total risk-weighted assets for credit risk	937,833,649	896,234,579
Total risk-weighted assets for market risk	13,920,731	18,454,779
Total risk-weighted assets for operational risk	119,443,032	110,974,487
Total risk-weighted assets	1,071,197,412	1,025,663,845
Common Equity Tier I (CET I) capital ratio (Minimum requirement 7.0%	12.95	10.69
Total Tier I capital (Tier I) (Minimum requirement 8.5%)	13.41	10.69
Total capital ratio (Minimum requirement 12.5%)	17.91	15.63

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INCOME STATEMENT – USD

As at 31 December	Bank			Group		
	2021 USD '000	2020 USD '000	Change %	2021 USD '000	2020 USD '000	Change %
Gross income	1,032,378	1,016,310	1.6	1,179,552	1,191,477	-1.0
Interest income	982,964	956,368	2.8	1,107,659	1,101,611	0.5
Interest expenses	(572,200)	(632,109)	-9.5	(625,094)	(705,526)	-11.4
Net interest income	410,764	324,260	26.7	482,564	396,085	21.8
Fee and commission income	41,186	35,781	15.1	48,046	41,594	15.5
Fee and commission expense	(2,978)	(2,568)	16.0	(2,978)	(2,568)	16.0
Net fee and commission income	38,209	33,213	15.0	45,068	39,027	15.5
Net gain/(loss) from trading	(6,700)	13,778	-148.6	(6,015)	14,822	-140.6
Other operating income (net)	14,927	10,384	43.8	29,863	33,450	-10.7
Total operating income	457,200	381,634	19.8	551,480	483,383	14.1
Impairment charge	(72,094)	(61,555)	17.1	(72,157)	(93,478)	-22.8
Net operating income	385,106	320,079	20.3	479,323	389,905	22.9
Personnel expenses	(113,434)	(104,953)	8.1	(138,201)	(126,085)	9.6
Other expenses	(86,125)	(81,673)	5.5	(113,430)	(107,807)	5.2
Operating profit before value added tax (VAT) on financial services	185,547	133,454	39.0	227,692	156,013	45.9
Value added tax (VAT) on financial services	(34,181)	(20,496)	66.8	(42,210)	(24,855)	69.8
Operating profit after value added tax (VAT) on financial services	151,365	112,958	34.0	185,481	131,158	41.4
Share of profits/(loss) of associates (net of tax)	–	–		54	5	1061.4
Profit before tax	151,365	112,958	34.0	185,536	131,162	41.5
Income tax expenses	(33,208)	(37,526)	-11.5	(45,622)	(45,537)	0.2
Profit for the year	118,158	75,432	56.6	139,914	85,626	63.4
Profit attributable to :						
Equity holders of the Bank	118,158	75,432	56.6	131,263	81,046	62.0
Non-controlling interest	–	–	–	8,651	4,580	88.9
	118,158	75,432	56.6	139,914	85,626	63.4

Exchange Rate: 1 USD was LKR 200.75 as at 31 December 2021 (LKR 187.92 as at 31 December 2020)

The Income Statement and Statement of Financial Position given on pages 219 and 220 are solely for the convenience of shareholders, investors and other users of Financial Statements.

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STATEMENT OF FINANCIAL POSITION – USD

As at 31 December	Bank			Group		
	2021 USD '000	2020 USD '000	Change %	2021 USD '000	2020 USD '000	Change %
Assets						
Cash and cash equivalents	286,617	380,281	-24.6	293,085	387,934	-24.4
Balances with Central Bank of Sri Lanka	282,530	75,547	274.0	282,530	75,547	274.0
Placements with banks	–	54,835	-100.0	16,567	74,027	-77.6
Derivative financial instruments	2,201	520	323.6	2,201	520	323.6
Financial assets – at fair value through profit or loss	7,765	247,051	-96.9	12,720	280,596	-95.5
Financial assets – at amortised cost						
Loans and advances to banks	50,470	125,641	-59.8	66,740	125,708	-46.9
Loans and advances to other customers	9,144,195	8,703,747	5.1	9,916,259	9,452,227	4.9
Debt instruments measured at amortised cost	2,925,630	1,900,351	54.0	2,989,189	1,947,142	53.5
Financial assets - at fair value through Other Comprehensive Income [OCI]						
Equity instruments at fair value through OCI	8,077	10,312	-21.7	9,410	9,465	-0.6
Debt instruments at fair value through OCI	46,821	14,007	234.3	52,786	15,430	242.1
Investments in subsidiaries	17,797	10,312	72.6	–	–	–
Investments in associates	–	–	–	–	2,831	-100.0
Investment properties	–	6,712	-100.0	–	6,692	-100.0
Property, plant and equipment and right of use assets	232,932	204,377	14.0	281,107	255,974	9.8
Intangible assets and goodwill	10,349	3,737	177.0	11,221	5,363	109.2
Net deferred tax assets	–	3,701	–	–	–	–
Other assets	173,361	126,460	37.1	176,322	135,182	30.4
Total assets	13,188,745	11,867,592	11.1	14,110,137	12,774,636	10.5
Liabilities						
Due to banks	536,717	875,333	-38.7	609,703	917,640	-33.6
Derivative financial instruments	8,773	5,196	68.8	8,773	5,196	68.8
Due to other customers	10,318,967	9,765,494	5.7	10,802,863	10,298,148	4.9
Other borrowings	1,202,586	193,503	521.5	1,202,586	193,503	521.5
Current tax liabilities	32,144	35,166	-8.6	42,402	40,119	5.7
Net deferred tax liabilities	13,386	–	–	15,914	4,286	271.3
Other liabilities	154,933	218,401	-29.1	216,446	272,841	-20.7
Subordinated term debts	243,396	231,793	5.0	326,578	302,625	7.9
Total liabilities	12,510,901	11,324,885	10.5	13,225,264	12,034,357	9.9
Equity						
Stated capital/assigned capital	60,782	64,933	-6.4	60,782	64,933	-6.4
Statutory reserve fund	45,881	42,703	7.4	45,881	42,703	7.4
Other reserves	178,841	174,861	2.3	190,088	185,847	2.3
Retained earnings	392,340	260,210	50.8	521,820	384,577	35.7
Total shareholders' equity	677,844	542,707	24.9	818,570	678,060	20.7
Non-controlling interests	–	–		66,303	62,219	6.6
Total equity	677,844	542,707	24.9	884,873	740,279	19.5
Total equity and liabilities	13,188,745	11,867,592	11.1	14,110,137	12,774,636	10.5
Contingent liabilities and commitments	2,135,847	2,607,213	-18.1	2,210,920	2,648,460	-16.5

Exchange Rate: 1 USD was LKR 200.75 as at 31 December 2021 (LKR 187.92 as at 31 December 2020)

The Income Statement and Statement of Financial Position given on pages 219 and 220 are solely for the convenience of shareholders, investors and other users of Financial Statements.

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TEN YEAR SUMMARY – BANK

(LKR Mn.)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Assets										
Cash and short-term funds	114,256	85,658	89,562	109,496	134,647	127,058	74,112	80,940	59,143	67,814
Investments	613,604	443,955	405,688	299,160	269,691	250,240	304,519	290,486	226,075	175,491
Loans and receivables (Net)	1,835,697	1,635,579	1,310,150	1,265,667	1,012,643	890,528	768,515	627,209	619,830	611,414
Property, plant, equipment and right-of-use assets	46,761	38,406	34,310	26,260	25,048	17,224	16,304	14,947	14,706	8,235
Other assets	37,322	26,521	33,697	34,120	25,071	16,999	13,146	13,186	10,832	10,343
Total assets	2,647,641	2,230,119	1,873,406	1,734,703	1,467,099	1,302,048	1,176,595	1,026,769	930,585	873,296
Liabilities										
Customer deposits	2,071,533	1,835,099	1,491,386	1,422,961	1,244,003	1,077,812	899,238	793,342	762,249	683,951
Borrowing from banks and others	349,165	200,852	224,809	173,607	105,057	134,109	192,083	157,198	102,148	135,150
Other liabilities	42,004	48,626	39,532	34,391	28,051	17,947	20,747	17,727	14,619	14,991
Subordinated term debts	48,862	43,558	22,714	12,534	12,532	12,532	15,033	15,033	15,033	10,000
Total liabilities	2,511,563	2,128,135	1,778,442	1,643,493	1,389,642	1,242,400	1,127,100	983,299	894,048	844,092
Total equity	136,077	101,984	94,964	91,210	77,457	59,649	49,495	43,470	36,537	29,205
Total equity and liabilities	2,647,641	2,230,119	1,873,406	1,734,703	1,467,099	1,302,048	1,176,595	1,026,769	930,585	873,296
Contingent liabilities and commitments	428,771	489,939	363,926	402,762	303,344	226,430	181,533	182,573	197,119	207,021
Operating results										
Gross income	207,250	190,982	199,729	181,284	160,835	122,114	103,649	96,377	120,456	94,777
Total operating income	91,783	71,715	73,795	69,886	61,856	55,060	54,743	41,894	46,530	43,310
Total operating expenses (Including VAT)	46,923	38,922	45,640	42,855	34,594	32,999	31,483	26,093	22,509	24,186
Profit before tax	30,387	21,227	19,666	24,406	25,913	20,814	19,520	17,231	10,304	15,249
Income tax	6,666	7,052	6,741	7,312	7,663	5,819	6,922	3,012	2,816	4,355
Profit after tax	23,720	14,175	12,926	17,095	18,250	14,995	12,598	14,219	7,488	10,894
Performance indicators										
Number of employees (permanent)	7,568	7,692	7,836	8,093	8,454	8,249	8,368	8,156	7,409	7,823
Per employee (LKR '000)										
Deposits	273,723	238,572	190,325	175,826	147,150	130,660	107,462	97,271	102,881	87,428
Loans and receivables (net)	242,560	212,634	167,196	156,390	119,783	107,956	91,840	76,902	83,659	78,156
Gross earnings	27,385	24,829	25,489	22,400	19,025	14,804	12,386	11,817	16,258	12,115
Profit after tax	3,134	1,843	1,650	2,112	2,159	1,818	1,505	1,743	1,011	1,393
Per share (LKR)										
Profit after tax	23,720	14,175	12,926	17,095	18,250	14,995	12,598	14,219	7,488	10,894
Total assets	2,647,641	2,230,119	1,873,406	1,734,703	1,467,099	1,302,048	1,176,595	1,026,769	930,585	873,296
Equity	136,077	101,984	94,964	91,210	77,457	59,649	49,495	43,470	36,537	29,205
Return on assets % (before tax)	1.2	1.0	1.1	1.5	1.9	1.7	1.8	1.8	1.1	2.0
Return on equity %	19.9	14.4	13.9	20.3	26.6	27.5	27.1	35.5	22.8	41.7
Cost/income ratio %	51.1	54.3	61.8	61.3	55.9	59.9	57.5	62.3	48.4	55.8
Capital adequacy ratio (CAR) %	17.8	15.5	14.7	14.5	13.5	12.1	12.6	14.3	15.0	14.0
Non-performing loan (NPL) ratio (gross) %	3.2	3.2	3.3	2.5	1.9	1.9	2.4	3.2	5.3	2.8
Fitch rating	AA-	AA-	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+

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TEN YEAR SUMMARY – GROUP

(LKR Mn.)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Assets										
Cash and short-term funds	115,555	87,096	90,453	110,451	135,364	129,458	76,840	83,003	61,174	69,515
Investments	631,843	461,373	419,190	311,581	280,357	258,049	311,141	300,366	229,280	176,138
Loans and receivables (Net)	1,990,689	1,776,231	1,460,498	1,415,928	1,143,767	1,013,921	869,781	722,099	710,074	690,197
Property, plant, equipment and right-of-use assets	56,432	48,102	43,744	35,434	33,758	23,441	22,696	19,364	18,184	10,923
Other assets	38,091	27,766	35,889	35,147	25,833	19,528	14,279	14,425	12,760	14,087
Total assets	2,832,610	2,400,567	2,049,775	1,908,540	1,619,079	1,444,398	1,294,737	1,139,258	1,031,473	960,860
Liabilities										
Customer deposits	2,168,675	1,935,194	1,588,903	1,495,326	1,305,626	1,119,753	932,906	829,019	789,225	708,897
Borrowings	363,817	208,802	235,724	207,330	134,263	172,419	225,795	193,825	140,865	174,728
Other liabilities	56,920	60,592	54,619	49,285	40,299	30,509	32,328	27,469	23,153	21,486
Subordinated term debts	65,560	56,868	40,513	33,085	32,448	36,526	30,907	24,883	23,141	10,000
Total liabilities	2,654,972	2,261,457	1,919,759	1,785,027	1,512,635	1,359,207	1,221,937	1,075,196	976,384	915,111
Total equity	177,638	139,111	130,016	123,513	106,443	85,191	72,801	64,062	55,088	45,749
Total equity and liabilities	2,832,610	2,400,567	2,049,775	1,908,540	1,619,079	1,444,398	1,294,737	1,139,258	1,031,473	960,860
Contingent liabilities and commitments	443,842	497,690	370,986	409,575	304,102	226,442	181,545	182,597	197,376	208,570
Operating results										
Gross income	236,795	223,898	238,219	214,664	188,854	144,750	123,831	118,641	139,957	109,974
Total operating income	110,710	90,836	96,475	89,843	77,518	68,429	67,635	54,308	55,576	49,618
Total operating expenses (Including VAT)	58,989	48,623	59,135	54,554	44,600	41,633	38,346	32,779	27,264	27,304
Profit before tax	37,246	24,648	25,652	31,162	29,868	25,433	24,121	21,628	13,412	17,671
Income tax	9,159	8,557	9,474	9,669	9,358	7,477	9,053	4,674	4,248	5,775
Profit after tax	28,088	16,090	16,178	21,492	20,511	17,956	15,068	16,953	9,164	11,897
Performance indicators										
Number of employees	10,798	11,051	11,237	11,394	11,396	10,471	10,682	10,331	9,384	8,905
Per employee (LKR '000)										
Deposits	200,840	175,115	141,399	131,238	114,569	106,939	87,334	80,246	84,103	79,607
Loans and receivables (Net)	184,357	160,730	129,972	124,270	100,366	96,831	81,425	69,896	75,669	77,507
Gross earnings	21,930	20,260	21,199	18,840	16,572	13,824	11,592	11,484	14,914	12,350
Profit after tax	2,601	1,456	1,440	1,886	1,800	1,715	1,411	1,641	977	1,336
Return on assets % (before tax)	1.4	1.1	1.3	1.8	1.9	1.9	2.0	2.0	1.3	2.1
Return on equity %	17.7	12.0	12.8	18.7	21.4	22.7	22.0	28.5	18.2	28.2
Cost/income ratio %	53.3	53.5	61.3	60.7	57.5	60.8	56.7	60.4	49.1	55.0
Capital adequacy ratio (CAR) %	17.9	15.6	14.9	14.5	13.7	13.0	13.8	14.9	15.9	15.7
No-performing loan (NPL) ratio (gross) %	3.6	3.9	3.7	2.7	2.0	1.9	2.4	3.2	4.9	2.6

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BASEL III – MARKET DISCIPLINE 6 DISCLOSURE REQUIREMENT UNDER PILLAR III

CAPITAL ADEQUACY

Capital adequacy is one of the key financial indicators which illustrate the soundness and the stability of a bank. This measures bank's ability to withstand in an unexpected loss scenarios during various activities carried out by the Bank.

Basle committee on Bank supervision (BCBS) has implemented set of stringent measures of capital, liquidity and funding reforms. Accordingly BASLE III accord was issued in December 2010 and it has come into force and effect in Sri Lanka on 1 July 2017 based on the Central Bank direction 01of 2016 on capital requirement under BASLE III for licensed commercial banks. This replaces Basel II reforms which were in force and effect in Sri Lanka since 1 January 2008 onwards.

Commencing from 1 July 2017, with the amendment thereto under Direction no 11 of 2019 on Domestically Systemically Important Banks (D-SIBS) dated 20 December 2019; Bank has to maintain the Capital in 3 tiers as mentioned below:

Due to the extraordinary measures taken by CBSL due to COVID-19 outbreak, minimum capital requirements are revised to support the economic stability and growth of the country. Accordingly minimum capital requirement of the bank are as follows,

Minimum requirement

Common equity Tier I capital ratio (CETI)	7.00%
Total Tier I capital ratio (CET I+ AT I)	8.50%
Total capital ratio	12.50%

Common Equity Tier I (CET I) is mainly comprised of equity capital, other capital and retained earnings. CET I is the highest quality capital and effective capital in absorbing losses.

Additional Tier I capital includes capital instruments other than the instruments included in CET I capital.

Total capital is comprised of Tier I plus other qualifying capital instruments (i.e. such as subordinated debentures subject to regulatory deductions, revaluation reserves on property plant and equipment with a cap of up to 50% and general loan loss provision)

BASEL III has introduced new capital buffers and all banks are required to hold additional capital buffers over and above the minimum CET I and Total Capital Adequacy levels stipulated above.

- Capital conservation buffer
- High Loss Absorbency (HLA) requirement on Domestically Significant Banks (D-SIBs)
- Counter cyclical buffer

Three pillars introduced by BASEL II is continued to be applied in the BASEL III framework is mentioned below:

- Pillar I – Minimum capital requirements
- Pillar II – supervisory review process
- Pillar III – Market discipline

Pillar I – Minimum capital requirement

Minimum capital requirement shall maintain as a percentage of Risk Weighted Assets (RWAs) and bank calculated its RWAs based on following approaches:

- The standardised approach for credit risk
- The standardised measurement method for market risk
- The basic indicator approach for operational risk

Pillar II – Supervisory review process (SRP)

SRP framework assesses the Bank's capital adequacy and determining whether bank is maintaining additional capital to cover its risks. Bank has developed an Internal Capital Adequacy Assessment Process (ICAAP) framework in this regard, which closely indicates risks and capital assessment processes to support the Bank's current and projected demand for capital under unexpected and stressed conditions.

Pillar III – Market discipline

Pillar III aims to provide consistent and comprehensive disclosure framework which enhances the comparability between banks. It requires number of disclosure requirements to give better understanding of capital adequacy to external shareholders by providing an insight into the internal computation procedures followed by the Bank.

Accordingly disclosures required to be published as per the Central Bank Direction 01 of 2016 are set out below:

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TEMPLATE 1 : KEY REGULATORY RATIO – CAPITAL AND LIQUIDITY

	Bank		Group	
As at 31 December	**2021**	**2020**	**2021**	**2020**
Regulatory capital (LKR '000)				
Common Equity Tier I capital	104,747,717	79,604,100	138,667,285	109,596,440
Total Tier I capital	109,747,717	79,604,100	143,667,285	109,596,440
Total capital	155,798,954	129,271,791	191,833,922	160,292,747
Regulatory capital ratio (%)				
Common Equity Tier I capital ratio (Minimum requirement – 7.00%)	11.99	9.53	12.95	10.69
Total Tier I capital (Minimum requirement – 8.50%)	12.56	9.53	13.41	10.69
Total capital (Minimum requirement – 12.50%)	17.83	15.47	17.91	15.63
Regulatory liquidity				
Statutory liquid assets – Bank				
Domestic Banking Unit (LKR '000)	502,575,831	463,930,635	NA	NA
Off-Shore Banking Unit (USD '000)	239,417	1,165,688	NA	NA
Statutory liquid assets – (Minimum requirement 20%)				
Domestic Banking Unit (%)	23.52	25.61	NA	NA
Off-Shore Banking Unit (%)	25.94	60.46	NA	NA
Liquidity coverage ratio (%) Rupee (Minimum requirement – 2021 – 100%, 2020 – 90%)	155.83	166.82	NA	NA
Liquidity Coverage Ratio (%) All currency (Minimum requirement – 2021 – 100%, 2020 – 90%)	105.71	111.55	NA	NA

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TEMPLATE 2 : KEY REGULATORY RATIO – CAPITAL AND LIQUIDITY

As at 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Common Equity Tier I (CET I) capital after adjustments	104,747,717	79,604,100	138,667,285	109,596,440
Common Equity Tier I (CET I) capital	114,565,325	83,062,102	146,338,443	111,748,610
Equity/Assigned capital	12,201,998	12,201,998	12,201,998	12,201,998
Reserve fund	9,210,528	8,024,521	9,210,528	8,024,521
Public retained earning/(Accumulated retained losses)	78,762,283	49,012,539	104,755,262	72,526,668
Publish accumulated other comprehensive income (OCI)	249,143	248,715	210,196	252,196
General and other disclosed reserves	14,141,373	13,574,329	14,141,373	13,574,329
Unpublished current year's profit/loss and gain reflected in OCI	–	–	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	5,819,087	5,168,898
Total adjustments to CET I capital	9,817,608	3,458,002	7,671,158	2,152,170
Goodwill (net)	–	–	–	–
Deferred tax asset (Net)	–	695,424	–	–
Intangible assets (Net)	2,077,544	702,181	2,252,557	1,007,730
Other (Investment in the capital of subsidiaries and other financial institution)	2,883,845	2,060,397	562,382	1,144,440
Defined benefit asset	4,856,219	–	4,856,219	–
Additional Tier I (AT I) capital after adjustments	5,000,000	–	5,000,000	–
Additional Tier I (AT I) capital	5,000,000	–	5,000,000	–
Qualifying additional Tier I capital instruments	5,000,000	–	5,000,000	–
Instrument issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to AT I capital	–	–	–	–
Investment in own shares	–	–	–	–
Other (Specify)	–	–	–	–
Tier II Capital after adjustments	46,051,238	49,667,691	48,166,637	50,696,308
Tier II Capital	46,051,238	49,667,691	48,166,637	50,696,308
Qualifying Tier II capital instruments	27,069,250	33,796,850	27,069,250	33,796,850
Revaluation gains	9,374,467	7,025,956	9,374,466	7,025,956
Loan loss provisions	9,607,521	8,844,885	11,722,921	9,873,502
Instrument issued by consolidated banking and financial subsidiaries of the Bank and held by third parties				
Total adjustment to Tier II	–	–	–	–

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	Bank		Group	
As at 31 December	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
Investment in own shares	–	–	–	–
Other (specify)	–	–	–	–
CET capital	104,747,717	79,604,100	138,667,285	109,596,440
Total Tier I capital	109,747,717	79,604,100	143,667,285	109,596,440
Total capital	155,798,954	129,271,791	191,833,922	160,292,747
Total risk weighted assets (RWA)	873,669,797	835,523,801	1,071,197,412	1,025,663,845
RWA for credit risk	768,601,693	743,655,441	937,833,649	896,234,579
RWA for market risk	9,947,942	5,591,325	13,920,731	18,454,779
RWA for operational risk	95,120,162	86,277,034	119,443,032	110,974,487
CET I capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIB) (%)	11.99	9.53	12.95	10.69
of which: capital conservation buffer (%)	1.50	1.50	1.50	1.50
of which: countercyclical buffer (%)	–	–	–	–
of which: capital surcharge countercyclical buffer (%)	1.00	1.00	1.00	1.00
Total Tier I capital ratio (%)	12.56	9.53	13.41	10.69
Total capital ratio (Including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	17.83	15.47	17.91	15.63
of which: capital conservation buffer (%)	1.50	1.5	1.50	1.5
of which: countercyclical buffer (%)	–	–	–	–
of which: capital surcharge on D-SIBs (%)	1.00	1.00	1.00	1.00

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TEMPLATE 03: COMPUTATION OF LEVERAGE RATIO

	Bank		Group	
As at 31 December	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
Tier I capital	109,747,717	79,604,100	143,667,285	109,596,440
Total exposures	2,772,318,458	2,319,824,014	2,962,165,320	2,492,962,547
On balance sheet items (Excluding derivatives and securities financing transactions, but including collateral)	2,434,881,051	2,215,313,018	2,621,996,953	2,387,054,979
Derivative exposures	3,466,934	1,817,796	3,466,934	1,817,796
Securities financing transaction exposures	249,384,608	28,184,933	249,384,608	28,197,532
Other off-balance sheet exposures	84,585,865	74,508,267	87,316,825	75,892,240
Basel III leverage ratio (%) (Tier I/total exposure)	3.96%	3.43%	4.85%	4.40%

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BASEL III DISCLOSURE REQUIREMENT

As at 31 December	2021		2020	
	Total unweighted value LKR '000	Total weighted value LKR '000	Total unweighted value LKR '000	Total weighted value LKR '000
Total stock of High-Quality Liquid Assets (HQLA)	372,286,684	367,540,924	435,978,801	434,450,384
Level 1 assets	362,795,163	362,795,163	432,921,968	432,921,968
Level 2A assets	–	–	–	–
Level 2B assets	9,491,521	4,745,761	3,056,833	1,528,416
Total cash outflows	2,449,124,055	518,681,448	2,225,493,314	539,890,881
Deposits	1,465,808,681	146,580,868	1,281,030,229	128,103,023
Unsecured wholesale funding	632,974,981	314,332,823	594,546,403	307,322,741
Secured funding transactions	17,051,850	–	14,436,972	–
Undrawn portion of committed (irrevocable)facilities and other contingent funding obligations	306,123,236	30,602,450	267,432,676	36,418,083
Additional requirements	27,165,307	27,165,307	68,047,034	68,047,034
Total cash inflows	198,896,001	171,005,309	218,809,925	150,423,304
Maturing secured lending transactions backed by collateral	18,124,786	18,124,786	23,992,082	12,740,676
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 days	149,501,619	126,208,496	116,278,613	71,457,687
Operational deposits	4,597,569	–	12,314,289	–
Other cash inflows	26,672,027	26,672,027	66,224,941	66,224,941
Liquidity coverage ratio (%) (Stock of high quality liquid assets/total net cash outflows over the next calendar days)* 100		105.71		111.55

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TEMPLATE 5: MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

	Number 2 Debenture issued in 2009	Number 3 Debenture issued in 2011	Number 4 Debenture issued in 2013
Must be provided for each type of capital instrument separately			
Description of the capital instrument			
Issuer	People's Bank	People's Bank	People's Bank
Unique identifier (e.g. ISIN or Bloomberg identifier for private placement)	2	3	4
Original date of issuance	30 December 2009	30 December 2011	15 December 2013
Par value of instrument	2,500,000,000	5,000,000,000	5,000,000,000
Original maturity date, if applicable	29 December 2022	29 December 2022	29 December 2022
Amount recognised in regulatory capital (in LKR '000 as at the reporting date)	–	–	–
Accounting classification (equity/liability)	Liability	Liability	Liability
Issuer call subject to prior supervisory approval			
Optional call date, contingent call dates and redemption amount (LKR '000)	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A
Coupons/Dividends			
Fixed or floating dividend/coupon	Fixed rate	Fixed rate	Fixed rate
Coupon rate and any related index	13.50%	13.00%	13.00%
Non-cumulative or cumulative	N/A	N/A	N/A
Convertible or non-convertible			
If convertible, conversion trigger (s)	Non-convertible	Non-convertible	Non-convertible
If convertible, fully or partially	N/A	N/A	N/A
If convertible, mandatory or optional	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A

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Type A Debenture issued in 2019	Type B Debenture issued in 2019	Type A Debenture issued in 2020	Type B Debenture issued in 2020	**Additional Tier I Debenture issued in 2021**	**Additional Tier I Debenture issued in 2021**
People's Bank	People's Bank	People's Bank	People's Bank	People's Bank	People's Bank
A	B	A	B	1	2
8 November 2019	8 November 2019	27 July 2020	27 July 2020	29 March 2021	3 August 2021
6,563,000,000	3,437,000,000	12,900,000,000	7,100,000,000	3,500,000,000	1,500,000,000
8 November 2024	8 November 2027	27 July 2025	27 July 2028	–	–
4,922,250,000	3,437,000,000	11,610,000,000	7,100,000,000	3,500,000,000	1,500,000,000
Liability	Liability	Liability	Liability	Equity	Equity
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
Fixed rate	Fixed rate	Fixed rate	Fixed rate	Fixed rate	Fixed rate
12.00%	12.25%	9.50%	10.25%	9.50%	9.50%
N/A	N/A	N/A	N/A	N/A	N/A
Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A

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TEMPLATE 6: SUMMARY DISCUSSION ON THE ADEQUACY/MEETING CURRENT AND FUTURE CAPITAL REQUIREMENTS

Overview

In accordance with CBSL stipulations, the Bank carries out an annual Internal Capital Adequacy Assessment Process. The assessment covers a five (5) year time horizon with the last carried out for 2019 – 2023.

Material exposures

At the end of 2021, close 49.6% of the Bank's total loan book was composed of exposures to the State and other state owned enterprises. State exposures mostly backed by sovereign undertaking(s) by way of either a Treasury guarantee/indemnity and/ or another form of Government assurance.

Leaving aside such sovereign backed exposures, the Bank's single largest exposure to a non-sovereign does not account for over 2.0% of the Bank's total loan book.

Initiatives taken to bolster regulatory capital during 2017, 2018, 2019, 2020, and 2021

During 2017 and 2018, 2019, 2020, and 2021 – the Bank undertook several initiatives to bolster its regulatory capital and meet all requisite Basel III Risk Control measures. From a Capital Adequacy/Solvency perspective, these included amongst other.

2017

- Raise LKR 5.0 Bn. in New Capital from General Treasury, Ministry of Finance on July 21, 2017. This was first so received over the last eight (8) years.
- Reduce its dividend payout, as measured as a function of post tax profit, to 28.6% during 2017 from 54.8% in 2016.
- Revalued all its land and buildings on 1 July 2017. This enabled the Bank to recognise close to LKR 3.6 Bn. in Tier II capital with requisite regulatory clearance.
- Ensured new facilities extended to State Owned Enterprises were backed by the sovereign backed and, in case of other forms of government assurances, ensure they are as a general rule routed through the Monetary Board of the Central Bank of Sri Lanka for prior approval.
- Carry-out an interim profit certification for the six months period ended 30 June 2017 in view of ensuring interim regulatory capital pressures are managed in order to support loan book growth.
- Undertake efforts necessary to amend the People's Bank Act to facilitate the issuance of Debentures to enable the Bank conform with Basel rules. This process was once again revived with the assistance of the line of Ministry.

As a result of all the above, during 2017 – the Bank successfully met all Basel III Risk Control Measures without any exception or excuse, be Capital Adequacy Ratio, Liquidity Coverage Ratio, Net Stable Funding and Leverage.

2018

- The Bank endeavoured to further reduce its dividend payout ratio, as measured as a function of dividends over post tax profit, to 20.0% in 2018 from 28.6% in 2017.
- Loan book growth was risk measured during 2018.
- Interim profit certifications were carried out for the six months period ended 30 June 2018 in view of ensuring interim regulatory capital requirements were met.
- The process in relation to the People's Bank Act amendment continued. This was key to long-term sustainable loan book growth .

As a result of all the above, during 2018 - the Bank successfully met all Basel III Risk Control Measures without any exception or excuse, be Capital Adequacy Ratio, Liquidity Coverage Ratio, Net Stable Funding and Leverage

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2019

- The Bank further reduced its dividend payout ratio to 18.7% in 2019 from 20.0% in 2018.
- Interim profit certifications were carried during the three months ended 31 March 2019, six months ended 30 June 2019, and the nine months ended 30 September 2019 in view of managing/avoiding interim regulatory capital pressures.
- The People's Bank Act amendments was finalised in September 2019.
- On 8 November 2019 – the Bank issued its first Basel III, Tier II compliant debenture for value LKR 10.0 Bn.

As a result of all the above, during 2019 – the Bank successfully met all Basel III Risk Control Measures without any exception or excuse, be Capital Adequacy Ratio, Liquidity Coverage Ratio, Net Stable Funding and Leverage

2020

- On 1 July 2020 – as originally planned – the Bank revalued all its land and buildings. This resulted in a Tier II benefit of close to LKR 2.3 Bn. The next detailed revaluation is set to be carried out on July 1, 2023.
- On July 27, 2020 – the Bank issued LKR 20.0 Bn. in Basel III, Tier II debentures which was the single largest issuance for any Bank/Financial Services Provider to date in the country.

As a result of all the above, during 2020 – the Bank successfully met all Basel III Risk Control Measures without any exception or excuse, be Capital Adequacy Ratio, Liquidity Coverage Ratio, Net Stable Funding and Leverage

2021

- On 29 March 2021 and 03 August 2021 – as originally planned – the Bank issued LKR 3.5 Bn. and LKR 1.5 Bn. Basel III, Additional Tier I Compliant debentures.
- The Bank further reduced its dividend payout ratio to 9.2 % in 2021.
- Interim profit certifications were carried out during three months ended 31 March 2021, six months ended 30 June 2021 and nine months ended 30 September 2021 in view of managing regulatory capital pressure.

As a result of all the above, during 2021 – the Bank successfully met all Basel III Risk Control Measures without any exception or excuse, be Capital Adequacy Ratio, Liquidity Coverage Ratio, Net Stable Funding and Leverage

2022 plan

- The Bank is in a constant and continuous process of undertaking measures reasonably necessary to bolster its regulatory capital levels.
- Following are slated to be undertaken during 2022.
  - Issue Additional Tier I and Tier II Basel III compliant instruments.
  - Continue to maintain its lower dividend/levy payout policy during the year.
  - Carry-out an interim profit certifications in view of avoiding regulatory capital shortfalls.

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TEMPLATE 07: CREDIT RISK UNDER STANDARDIZED APPROACH

Credit risk exposures and credit risk mitigation effects (Bank)

	Exposures before CCF and CRM			Exposures after CCF and CRM				
Item	**Exposures On-balance Sheet**	**Exposures Off-balance Sheet**	**Total**	**Exposures On-balance Sheet**	**Exposures Off-balance Sheet**	**Total**	**Risk weighted assets**	**RWA Density (%)**
Total risk-weighted amount for credit risk	2,643,773,179	433,007,416	3,076,780,595	2,449,467,893	86,821,245	2,536,289,138	768,601,693	30
Claims on Central Government and Central Bank of Sri Lanka	1,334,169,282	16,253,547	1,350,422,829	1,334,169,282	20,296,443	1,354,465,725	35,604,738	3
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–	–	–
Claims on Public sector entities (PSEs)	258,613,164	160,480,580	419,093,743	95,732,662	4,856,732	100,589,395	53,020,647	53
Claims on BIS, IMF and multilateral development banks (MDBs)	–	–	–	–	–	–	–	–
Claims on banks exposures	3,190,653	–	3,190,653	3,190,653	–	3,190,653	717,677	22
Claims on financial institutions	5,123,471	–	5,123,471	5,123,471	–	5,123,471	2,941,131	57
Claims on corporates	104,246,071	216,816,411	321,062,482	104,190,438	53,776,694	157,967,132	150,152,558	95
Retail claims	534,399,317	39,456,879	573,856,196	503,030,165	7,891,376	510,921,541	399,782,395	78
Claims secured by gold	194,769,226	–	194,769,226	194,769,226	–	194,769,226	1,387,067	1
Claims secured by residential property	61,873,841	–	61,873,841	61,873,841	–	61,873,841	21,655,844	35
Claims secured by commercial real estate	–		–	–	–	–	–	–
Non-performing assets (NPAs)	28,758,273	–	28,758,273	28,758,273	–	28,758,273	38,577,961	134
Higher-risk categories	1,076,316	–	1,076,316	1,076,316	–	1,076,316	2,690,789	250
Cash items	55,766,424	–	55,766,424	55,766,424	–	55,766,424	283,745	1
Other assets	61,787,140	–	61,787,140	61,787,140	–	61,787,140	61,787,140	100

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TEMPLATE 07: CREDIT RISK UNDER STANDARDIZED APPROACH

Credit risk exposures and credit risk mitigation effects (Group)

	Exposures before CCF and CRM			Exposures after CCF and CRM				
Item	**Exposures On-balance Sheet**	**Exposures Off-balance Sheet**	**Total**	**Exposures On-balance Sheet**	**Exposures Off-balance Sheet**	**Total**	**Risk weighted Assets**	**RWA Density (%)**
Total risk-weighted amount for credit risk	2,828,907,635	446,662,216	3,275,569,851	2,634,324,678	89,552,205	2,723,876,883	937,833,649	34
Claims on Central Government and Central Bank of Sri Lanka	1,349,852,120	16,253,547	1,366,105,667	1,349,852,120	20,296,443	1,370,148,563	35,604,738	3
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–	–	–
Claims on public sector entities (PSEs)	258,335,492	160,480,580	418,816,072	95,454,991	4,856,732	100,311,723	52,742,976	53
Claims on BIS, IMF and multilateral development banks(MDBs)	–	–	–	–	–	–	–	–
Claims on banks exposures	3,190,653	–	3,190,653	3,190,653	–	3,190,653	717,677	22
Claims on financial institutions	8,689,199	–	8,689,199	8,689,199	–	8,689,199	6,506,859	75
Claims on corporates	104,246,071	230,471,211	334,717,282	104,190,438	56,507,654	160,698,092	152,883,518	95
Retail claims	686,947,744	39,456,879	726,404,624	655,300,921	7,891,376	663,192,297	552,053,151	83
Claims secured by gold	194,769,226	–	194,769,226	194,769,226	–	194,769,226	1,387,067	1
Claims secured by residential property	61,873,841	–	61,873,841	61,873,841	–	61,873,841	21,655,844	35
Claims secured by commercial real estate	–		–	–	–	–	–	–
Non-performing assets (NPAs)	31,479,469	–	31,479,469	31,479,469	–	31,479,469	41,299,157	131
Higher-risk categories	–	–	–	–	–	–	–	–
Cash items	56,824,902	–	56,824,902	56,824,902	–	56,824,902	283,745	–
Other assets	72,698,916	–	72,698,916	72,698,916	–	72,698,916	72,698,916	100

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TEMPLATE 8: CREDIT RISK UNDER STANDARDISED APPROACH: EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS - BANK ONLY

Description	Amount (LKR '000) as at 31 December 2017 (Post CCF and CRM)			
Risk weight / Asset classes	0%	10%	20%	50%
Claims on Central Government and Central Bank of Sri Lanka	998,418,342	292,389,651	63,657,732	–
Claims on Foreign Sovereigns and their Central Banks	–		–	–
Claims on public sector entities	–		59,460,935	–
Claims on banks exposures	–		2,952,819	221,441
Claims on financial institutions			–	4,364,678
Claims on corporates	–		252,480	15,617,589
Retail claims	187,833,894		6,935,333	–
Claims secured by residential property	–		–	61,873,841
Non-performing assets (NPAs)	–		–	7,940
Higher-risk categories	–		–	–
Cash items and other assets	54,347,698		1,418,726	–
Total	1,240,599,934	292,389,651	134,678,026	82,085,491

TEMPLATE 8: CREDIT RISK UNDER STANDARDISED APPROACH: EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS - GROUP ONLY

Description	Amount (LKR '000) as at 31 December 2017 (Post CCF and CRM)			
Risk weight / Asset classes	0%	10%	20%	50%
Claims on Central Government and Central Bank of Sri Lanka	1,014,101,180	292,389,651	63,657,732	–
Claims on Foreign Sovereigns and their Central Banks	–		–	–
Claims on public sector entities	–		59,460,935	–
Claims on banks exposures	–		2,952,819	221,441
Claims on financial institutions			–	4,364,678
Claims on corporates	–		252,480	15,617,589
Retail claims	187,833,894		6,935,333	–
Claims secured by residential property	–		–	61,873,841
Non-performing assets (NPAs)	–		–	7,940
Higher-risk categories	–		–	–
Cash items and other assets	55,406,176		1,418,726	–
Total	1,257,341,250	292,389,651	134,678,026	82,085,491

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Amount (LKR '000) as at 31 December 2017 (Post CCF and CRM)

60%	75%	100%	150%	>150%	Total credit exposures amount
	–	–	–	–	1,354,465,725
	–	–	–	–	–
	–	41,128,460	–	–	100,589,395
	–	16,392	–	–	3,190,653
		758,792	–	–	5,123,471
	–	141,704,655	392,408	–	157,967,132
1,662,519	441,896,552	67,362,470	–	–	705,690,768
	–	–	–	–	61,873,841
	–	9,103,016	19,647,316	–	28,758,273
	–	–	–	1,076,316	1,076,316
	–	61,787,140	–	–	117,553,564
1,662,519	441,896,552	321,860,926	20,039,724	1,076,316	2,536,289,138

Amount (LKR'000)as at 31.12.2017 (Post CCF and CRM)

60%	75%	100%	150%	>150%	Total Credit Exposures Amount
	–	–	–	–	1,370,148,563
	–	–	–	–	–
	–	40,850,789	–	–	100,311,723
	–	16,392	–	–	3,190,653
		4,324,520	–	–	8,689,199
	–	144,435,615	392,408	–	160,698,092
1,662,519	441,896,552	219,633,226	–	–	857,961,524
	–	–	–	–	61,873,841
	–	11,824,212	19,647,316	–	31,479,469
	–	–	–	–	–
	–	72,698,916	–	–	129,523,818
1,662,519	441,896,552	493,783,670	20,039,724	–	2,723,876,883

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TEMPLATE 9: MARKET RISK UNDER STANDARDISED MEASUREMENT METHOD

	Bank		Group	
As at 31 December	**2021 LKR '000**	**2020 LKR '000**	**2021 LKR '000**	**2020 LKR '000**
(a) RWA for interest rate risk	748,043	165,101	748,043	165,101
General interest rate risk	387,643	161,553	387,643	161,553
(i) Net long or short position	387,643	161,553	387,643	161,553
(ii) Horizontal disallowance	–	–	–	–
(iii) Vertical disallowance	–	–	–	–
(iv) Options	–	–	–	–
Specific interest rate risk	360,400	3,548	360,400	3,548
(b) RWA for equity	363,033	288,307	859,631	1,896,238
(I) General equity risk	184,076	155,657	432,375	960,097
(Ii) Specific equity risk	178,957	132,650	427,256	936,141
(c) RWA for foreign exchange and gold	132,417	245,508	132,417	245,508
(d) Capital charge for market risk (a)+(b)+(c)	1,243,493	698,916	1,740,091	2,306,847
RWA for market risk (d) *100/12.5 (2021)	9,947,944	5,591,325	13,920,731	18,454,779

TEMPLATE 10: OPERATIONAL RISK UNDER BASIC INDICATOR APPROACH

		Bank				Group			
		Gross income				Gross income			
		1st year	2nd year	3rd year	Average	1st year	2nd year	3rd year	Average
The basic indicator approach		73,841,041	71,822,080	92,137,283	79,266,801	96,521,789	90,942,446	111,143,345	99,535,860
The basic indicator approach	15%	11,076,156	10,773,312	13,820,592	11,890,020	14,478,268	13,641,367	16,671,502	14,930,379
The basic indicator approach	8.0	88,609,249	86,186,496	110,564,740	95,120,162	115,826,147	109,130,935	133,372,014	119,443,032

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TEMPLATE 11 : DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES – BANK ONLY

	Carrying value as reported in published financial statements LKR '000	Carrying value under scope of regulatory reporting LKR '000	Subject to credit risk framework LKR '000	Subject to market risk framework LKR '000	Subject to deduction from capital LKR '000
Assets	2,647,640,536	2,647,640,536	2,635,034,990	2,787,939	9,817,607
Cash and cash equivalents	57,538,351	57,538,351	57,538,351	–	–
Balances with Central Bank of Sri Lanka	56,717,820	56,717,820	56,717,820	–	–
Placements with banks	–	–	–	–	–
Derivative financial instruments	441,877	441,877	441,877		–
Financial assets – At fair value through profit or loss	1,558,850	1,558,850		1,558,850	
Financial assets – At amortised cost		–			
Loans and receivables to banks	10,131,952	10,131,952	10,131,952	–	–
Loans and receivables to other customers	1,835,697,108	1,835,697,108	1,835,697,108	–	–
Debt instruments measured at amortised cost	587,320,182	587,320,182	587,320,182		
Financial Assets – At fair value through other comprehensive income [OCI]		–		–	–
Equity instruments at fair value through OCI	1,621,375	1,621,375		1,229,089	392,286
Debt instruments at fair value through OCI	9,399,272	9,399,272	9,399,272	–	–
Investments in subsidiaries	3,572,824	3,572,824	1,081,266	–	2,491,558
Investments in associates	–	–			
Goodwill and intangible assets	2,077,544	2,077,544	–	–	2,077,544
Property, plant and equipment	46,761,157	46,761,157	46,761,157	–	–
Investment properties	–	–	–	–	–
Net deferred tax assets	–	–	–		–
Other assets	34,802,224	34,802,224	29,946,005		4,856,219

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	Carrying value as reported in published financial statements LKR '000	Carrying value under scope of regulatory reporting LKR '000	Subject to credit risk framework LKR '000	Subject to market risk framework LKR '000	Subject to deduction from capital LKR '000
Liabilities	2,511,563,440	2,511,563,440	–	–	–
Due to banks	107,745,916	107,745,916	–	–	–
Derivative financial instruments	1,761,220	1,761,220	–	–	–
Due to other customers	2,071,532,612	2,071,532,612	–	–	–
Other borrowings	241,419,125	241,419,125	–	–	–
Current tax liabilities	6,452,823	6,452,823	–	–	–
Net deferred tax liabilities	2,687,330	2,687,330	–	–	–
Other liabilities	31,102,734	31,102,734	–	–	–
Subordinated term debts	48,861,680	48,861,680	–	–	–
Shareholders' equity	136,077,096	136,077,096	–	–	–
Stated capital/assigned capital	12,201,998	12,201,998	–	–	–
Statutory reserve fund	9,210,528	9,210,528	–	–	–
Other reserves	35,902,287	35,902,287	–	–	–
Retained earnings	78,762,283	78,762,283	–	–	–
Total equity and liabilities	2,647,640,536	2,647,640,536	–	–	–
Off-balance sheet liabilities	428,771,195	428,771,195	428,771,195	–	–
Acceptance	94,817,795	94,817,795	94,817,795	–	–
Guarantees	73,281,666	73,281,666	73,281,666	–	–
Letter of credit	74,070,212	74,070,212	74,070,212	–	–
Other contingent Items	108,101,010	108,101,010	108,101,010	–	–
Undrawn loan commitments	79,068,727	79,068,727	79,068,727	–	–
(-) Allowance for ECL/impairment losses	(568,215)	(568,215)	(568,215)		

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TEMPLATE 12: GROUP ASSESMENT OF DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBS) AS AT 31 DECEMBER 2021

As at 31 December	2021 LKR '000
Size Indicator	
Section 1 – Total Exposures	
Total exposures measure	2,962,165,320
(1) Counterparty exposure of derivatives contracts	
Interconnectedness Indicators	
Section 2 – Intra-Financial System Assets	
a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended)	12,630,396
(i) Funds deposited	6,739,989
(ii) Lending	5,890,407
b. Holdings of securities issued by other financial institutions	873,736
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	14,692,814
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	694,541
Intra-financial system assets	28,891,487
Section 3 – Intra-Financial System Liabilities	
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	143,497,858
(i) Funds deposited	28,369,566
(ii) Borrowings	115,128,291
b. Net negative current exposure of securities financing transactions with other financial institutions	0
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	2,534,295
Intra-financial system liabilities	146,032,153

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As at 31 December	2021 LKR '000
Section 4 – Securities Outstanding	
Securities outstanding	65,560,465
Substitutability/Financial Institution Infrastructure Indicators	
Section 5 – Payments made in the reporting year (excluding intragroup payments)	
Payments activity	3,734,602,448
Section 6 – Assets Under Custody	
Assets under custody	–
Section 7 – Underwritten Transactions in Debt and Equity Markets	
Underwriting activity	–
Section 8 – Trading Volume	
a. Number of shares or securities	10,510
b. Value of the transactions	29,644
Complexity indicators	
Section 9 – Notional Amount of Over-the-Counter (OTC) Derivatives	
OTC derivatives	116,437,523
Section 10 – Level 2 Assets	
Level 2 assets	9,491,521
Section 11 – Trading and Available for Sale (AFS) Securities	
a. Debt instruments	10,321,951
b. Equity instruments	3,137,357
c. Government Securities	1,580,105
d. Derivatives	441,877
Section 12 – Cross-jurisdictional Liabilities	
Cross-jurisdictional liabilities (excluding derivatives and intragroup liabilities)	140,420,417
Section 13 – Cross-jurisdictional Claims	
Cross-jurisdictional claims (excluding derivatives and intragroup claims)	37,201,487

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EXTERNAL ASSURANCE ON SUSTAINABILITY REPORT

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
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INDEPENDENT ASSURANCE REPORT TO PEOPLE'S BANK

We have been engaged by the Directors of People's Bank ("the Bank") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2021. The Sustainability Indicators are included in the People's Bank's Integrated Annual Report for the year ended 31 December 2021 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators as per statutory Financial Statements (audited) for the year ended 31 December 2021, dated 28 February 2022 and the audit report dated 5 March 2022 thereon	Integrated Annual Report Page
Financial Highlights	14

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited Assurance Sustainability Indicators	Integrated Annual Report Page
Non-financial highlights	15
Information provided on following:	
Financial capital	72 to 77
Manufactured capital	78 to 82
Intellectual capital	83 to 90
Human capital	91 to 106
Social and relationship capital	107 to 130
Natural capital	131 to 137

Our Conclusions

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Reasonable Assurance Sustainability Indicators

In our opinion, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2021 are, in all material respects, prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

Limited Assurance Sustainability Indicators

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2021, have not in all material respects, been prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

Management's Responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Bank complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

Our Responsibility

Our responsibility is to express a reasonable assurance conclusion on the Bank's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan FCA
A.M.R.P Alahakoon ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, W. A. A. Weerasekara CFA, ACMA, MRICS

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the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

Reasonable Assurance over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Bank's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative

Sustainability Reporting Standards Guidelines, used by the Bank in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Bank, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

Limited Assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Bank's processes for determining material issues for the Bank's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Bank;
- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

Purpose of our Report

In accordance with the terms of our engagement, this assurance report has been prepared for the Bank for the purpose of assisting the Directors in determining whether the Bank's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines and for no other purpose or in any other context.

Restriction of use of our report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Bank, for any purpose or in any other context. Any party other than the Bank who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Bank for our work, for this independent assurance report, or for the conclusions we have reached.

CHARTERED ACCOUNTANTS
Colombo
7 March 2022

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GRI CONTENT INDEX "IN ACCORDANCE WITH CORE" CRITERIA

GLOBAL REPORTING INITIATIVES (GRI) CONTENT INDEX - "IN ACCORDANCE CORE"

GRI standard disclosures		Page number(s)	Remarks
Global Reporting Initiative (GRI) Content Index - "In Accordance Core"			
GRI 102: General disclosures			
1. Organisational profile			
102-1	Name of the organisation	380	
102-2	Activities, brands, products and services	109 to 111	
102-3	Location of headquarters	380	
102-4	Location of operations	81	
102-5	Ownership and legal form	380	
102-6	Markets served	81	
102-7	Scale of the organisation	14 and 15	
102-8	Information on other employees and other workers	94 and 96	
102-9	Supply chain	118	
102-10	Significant changes to the organisation and its supply chain	118	
102-11	Precautionary principle or approach	03	
102-12	External initiatives	03	
102-13	Membership of associations	119	
2. Strategy			
102-14	Statement from senior decision-maker	19 to 22	
102-15	Key impacts risks, and opportunities	153 to 183	
3. Ethics and integrity			
102-16	Values, principles, standards and norms of behavior	09, 105 and 106	
102-17	Mechanisms for advice and concerns about ethics	105 and 106	
4. Governance			
102-18	Governance structure	185 and 186	
102-19	Delegating authority	191	
102-22	Composition of the highest governance body and its committees	30 to 33, 185 and 186	
102-23	Chair of the highest governance body	30 to 33, 185, 186 and 188	
102-24	Nominating and selecting the highest governance body	186 and 189	
102-25	Conflicts of interest	194 and 203	
102-26	Role of highest governance body in setting purpose, values and strategy	105 and 106	
102-30	Effectiveness of risk management processes	153 to 183	

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GRI standard disclosures		Page number(s)	Remarks
102-31	Review of economic, environmental and social topics		Each and every meeting pertaining to Board of Directors and Board Subcommittees are concerned over the economic, social and environmental impacts to the business decisions taken in such respective committees.
102-32	Highest governance body's role in sustainability reporting	191	
102-33	Communicating critical concerns	186	
102-34	Nature and total number of critical concerns	206	
102-35	Remuneration policies	201	
102-36	Process for determining remuneration	201	
5. Stakeholder engagement			
102-40	List of stakeholder groups	52 to 54	
102-41	Collective bargaining agreements	105	
102-42	Identifying and selecting stakeholders	52 to 54	
102-43	Approach to stakeholder engagement	52 to 54	
102-44	Key topics and concerns raised	52 to 54	
6. Reporting practice			
102-45	Entities included in the consolidated financial statements	02	
102-46	Defining report content and topic boundaries	02, 56 to 60	
102-47	List of material topics	56 to 60	
102-48	Restatements of information	02	
102-49	Changes in reporting	02	
102-50	Reporting period	02	
102-51	Date of most recent report	02	
102-52	Reporting cycle	02	
102-53	Contract point for questions regarding the report	03	
102-54	Claims of reporting in accordance with the GRI Standards	03	
102-55	GRI content index	371 to 375	
102-56	External assurance	03	
GRI 103: Management approach			
103-1	Explain the material topics and its boundary	56 to 60	
103-2	The Management Approach and its components	56 to 60	
103-3	Evaluation of the Management Approach	56 to 60	

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GRI standard disclosures		Page number(s)	Remarks
GRI Specific Disclosures			
Economic topics			
GRI 201: Economic performance			
201-1	Direct economic value generated and distributed	124	
201-2	Financial implications and other risks and opportunities due to climate change		Climate change does not have a significant impact on our business. No records were maintained to catalogue the effect of climate change on our business.
201-3	Defined benefit plan obligations and other retirement plans	237 and 238	
GRI 202: Market presence			
202-1	Ratios of standard entry level wage by gender compared to local minimum wage		There is no entry level wage rate imposed on Banking Sector. However, Bank's entry level wage is higher than the national minimum wage rate.
202-2	Proportion of senior management hired from the local community	97	
GRI 203: Indirect economic impacts			
203-1	Infrastructure investments and services supported	130	
203-2	Significant indirect economic impacts	113	
GRI 204: Procurement practices			
204-1	Proportion of spending on local suppliers	116	
GRI 205: Anti-corruption			
205-1	Operations assessed for risks related to corruption		The Bank evaluates the potential impact of operational risk on all products, processes and activities on an ongoing basis.
205-2	Communication and training about anti-corruption policies and procedures	105 and 106	
205-3	Confirmed incidents of corruption and actions taken	105 and 106	
GRI 206: Anti-competitive behaviour			
206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	109	

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GRI standard disclosures		Page number(s)	Remarks
Environmental topics			
GRI 302: Energy			
302-1	Energy consumption within the organisation	136 and 137	
302-2	Energy consumption outside the organisation	136 and 137	
302-3	Energy intensity	136 and 137	
302-4	Reduction of energy consumption	136 and 137	
GRI 305: Emissions			
305-1	Direct (scope 1) GHG emissions	134 and 135	
305-2	Indirect (scope 2) GHG emissions	134 and 135	
305-3	Other indirect (scope 3) GHG emissions	134 and 135	
Social topics			
GRI 401: Employment			
401-1	New employee hires and employee turnover	98, 102 to 104	
401-2	Benefits provided to full-time employee that are not provided to temporary or part time employees	102	
401-3	Parental leave	101	
GRI 402: Labour/management relations			
402-5	Minimum notice periods regarding operational changes	105	
GRI 403: Occupational health and safety			
403-1	Workers representation in formal joint management-worker health and safety committees	101	
403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related facilities	101	
403-3	Workers with high incidence or high risk of diseases related to their occupation		No reported incidents during the reporting period.
GRI 404: Training and education			
404-1	Average hours of training per year per employee	98 and 99	
404-2	Programmes for upgrading employee skills and transition assistance programmes	98 and 99	
404-3	Percentage of employees receiving regular performance and career development reviews	100	
GRI 405: Diversity and equal opportunity			
405-1	Diversity of governance bodies and employees	100	
405-2	Ratio of basic salary and remuneration of women to men	100	

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GRI standard disclosures		Page number(s)	Remarks
GRI 406: Non-discrimination			
406-1	Incidents of discrimination and corrective actions taken	101	
GRI 407: Freedom of association and collective bargaining			
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	None	
GRI 413: Local communities			
413-1	Operations with local community engagement, impact assessments and development programmes	125	
413-2	Operations with significant actual and potential negative impacts on local communities		No incident was reported during the reporting period.
GRI 416: Customer health and safety			
416-1	Assessment of the health and safety impacts of product and service categories	114	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	114	
GRI 417: Marketing and labelling			
417-1	Requirements for products and service information and labelling	112	
417-2	Incidents of non-compliance concerning product and service information and labelling	112	
417-3	Incidents of non-compliance concerning marketing communications	112	
GRI 418: Customer privacy			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	115	

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GLOSSARY OF FINANCIAL/ BANKING TERMS

A

Accounting policies
Principles, rules and procedures selected and consistently followed by the management of an entity in preparing and reporting the Financial Statements.

Accrual basis
Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Amortisation
Systematic allocation of the depreciable amount of an intangible asset over its useful life. Depreciation and amortisation both have the same meaning.

Actuarial valuation
Fund value determined by computing its normal cost, actuarial accrued liability, actuarial value of its assets and other relevant costs and values.

Amortised cost
The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Associate company
A company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

Available-for-sale financial asset
Those financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit and loss.

B

Bill discounted
A Promissory Note or Bill of Exchange that has been purchased for less than face value, the difference representing interest on the unexpired term of the bill. At maturity, the holder collects the face value of the bill for its own account.

Bill of exchange
A signed, written, unconditional order addressed by one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of a third person (the payee). The terms bill of exchange and draft are often used interchangeably.

C

Call deposits or call money
Deposits or funds lent out which are repayable on demand.

Capital adequacy
The ability of a Bank to meet the needs of their depositors and other creditors in terms of available funds. As per requirement of Bank for International Settlements (SIBS) and Central Bank of Sri Lanka, local banks should maintain a stipulated minimum capital.

Capital adequacy ratio
The percentage of the risk-adjusted assets supported by capital, as defined under the framework of risk based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Credit risk
The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Cash equivalents
Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Certificate of deposit (CD)
A certificate issued by a Bank against funds deposited with it that specifies the rate of interest payable and the date when the deposit will be repaid to the bearer. CDs are often negotiable.

Commercial paper
Unsecured short-term Promissory Notes issued by banks and creditworthy corporate borrowed.

Commitments
Credit facilities approved but not yet utilised by the clients as at the balance sheet date.

Contingencies
A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent banks
A bank that acts as an agent for another bank. The correspondent Bank will generally provide a wide variety of banking services on behalf of the other banks in the region in which the correspondent bank is located.

Cost income ratio
Operating expenses as a percentage of net income.

Counterparty
The other party (including a bank) with whom a deal is made or closed.

Country risk
The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

Cross rate
The calculated foreign exchange rate from two separate quotations involving the same currency.

Currency swap
A current exchange of principal amounts in two currencies combined with an agreement to re-exchange the currencies at a later date and to make interest payments, until the re-exchange, on the currency is received.

D

Deferred tax
Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the current financial year.

Depreciation
The systematic allocations of the depreciable amount of the assets over its useful life.

Derivative
A financial instrument with all three of the following characteristics: (a) Its value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable (sometimes called the "underlying"). (b) It requires no initial net investment that is smaller than would be required for other types. (c) It is settled at a future date.

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Dealing securities
Securities acquired and held with the intention of reselling them in the short-term.

Defined benefit plan
Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and/or years of service.

Disintermediation
The term often used to describe borrowers raising funds directly from the capital markets rather than from the banking sector. This is usually only undertaken by borrowers with the strongest credit ratings.

Documentary bill
A Bill of Exchange that is accompanied by various documents, such as a Bill of Lading, an invoice and an insurance policy.

Documentary credit
A letter of credit that stipulates the documents that must be produced in order for payment to be made.

Draft
A term generally synonymous with Bill of Exchange but sometimes used specifically in the context of interbank bills. A banker's draft, payable on demand, drawn by or on behalf of a Bank.

E

Effective interest method
The method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

Equity instrument
Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Expected credit loss
The weighted average of credit losses with the respective risks of a default occurring as the weights.

F

Fair value
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fixed charge
A charge on specific property, usually freehold or leasehold property or plant and machinery, given under a legal mortgage.

Financial instrument
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Floating charge
A charge, taken by a lender to secure an advance upon property, such as stock, debtors, or cash, that permits the Company to continue using and disposing of those assets in connection with its ordinary business. Such a charge becomes fixed in the event of the Company's default.

Foreclosed properties
Properties acquired in full or partial settlement of debts, which will be held with the intention of resale at the earliest opportunity.

Foreign exchange income
The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan rupees on the balance sheet date at prevailing rates which differ from those rates in force at inception or on the previous balance sheet date. Foreign exchange income also arises from trading in foreign currencies.

Forward contract
A contract that commits two parties to an exchange at a specific future date under terms set out at the contract date.

Forward rate
The price of currency with a maturity beyond the spot date. Forward rates may be either the same in price as spot rates or different. In the first case, the forward rate is flat. In the second case, the price is either higher, at a premium, or lower, at a discount.

Forward rate agreement (FRA)
An agreement to exchange payments at a specified future date based on the difference between a particular interest rate index (e.g. LIBOR) and an agreed fixed rate.

G

Group
A group is a parent and all its subsidiaries.

Guarantees
Primarily represent irrevocable assurances that a bank will make payments in the event that its customer is unable to perform its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H

Hedging
A methodology used to cover against risk of unfavourable price movements (interest rates, prices, commodities, etc).

Held-to-maturity investments
A financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intent and ability to hold to maturity, other than those that the entity on initial recognition elects to designate as held-for-trading or available-for-sale, or that meet the definition of loans and receivables.

I

Impairment
This arises due to decline in recoverable amount below carrying amount.

Indemnity
An agreement whereby a person agrees to bear any loss that is suffered by a party to a contract to which he himself is not a party. The person giving the indemnity assumes primarily liability, unlike a guarantor who assumes secondary liability.

Intangible assets
An identifiable non-monetary asset without a physical substance.

Interest rate risk
The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest in suspense
The interest due on non-performing assets.

Interest margin
Net interest income as a percentage of average interest-earning assets.

Investment property
A property (land or a building) held to earn rentals or for capital appreciation or both, rather than for: (a) use in the supply of goods or services or for administrative purposes; or (b) sale in the Ordinary course of business.

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K

Key management personnel
Those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity.

Key Performance Indicators (KPIs)
KPIs are quantifiable measurements, agreed beforehand that reflects the critical success factors of a company.

L

Lease
A contract, or part of contract that conveys the right to use as asset (the underline asset) for a period of time in exchange for consideration.

Letter of credit (LC)
A document issued by a bank, requesting another bank or banks to advance money to a third person, up to a certain amount, in accordance with the terms and conditions set out in the document.

Liquidity risk
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquid assets ratio
Liquid assets expressed as a percentage of total liabilities other than shareholders' funds.

Loss allowance
The allowance for expected credit losses on financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and the provision for expected credit losses on loan commitments and financial guarantee contracts.

M

Mark to market
The policy to periodically revaluing positions up or down to their current market or fair value.

Market risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: currency risk, interest rate risk, and other price risk.

Minority interest
The proportion of the profit or loss and net assets of a subsidiary attributable to equity interest that are not owned, directly or indirectly through subsidiaries, by the Parent.

Mortgage
A lien on real property used to secure a borrowing.

N

Negotiable instrument
A security or other financial instrument which can be freely sold to a third party (i.e. negotiated). Bank notes, bearer bonds, Bills of Exchange and cheques are normally negotiable instruments.

Net interest margin
Interest income as a percentage of Average Interest Earning Assets.

Non-performing loan
A loan where principal or interest payments are not being made on the due dates or where the borrower is failing to meet some other term or condition of the loan. Non-performing loans are frequently allocated non-accrual status.

Nostro account
A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank. At the other Bank, the deposit is called a nostro account.

O

Objective evidence
Information based on facts that can be proved through analysis, measurement, observation and other such means of research.

Off-balance sheet transactions
Transactions not recognised as assets or liabilities in the balance sheet but which give rise to contingencies and commitments.

P

Position
The netted total commitments in a given currency or interest rate. A position can be either flat or square (no exposure), long (more currency bought than sold overbought) or short (more currency sold than bought oversold).

Prime rate
The interest rate which a bank charges its most creditworthy corporate customers.

Promissory note
An unconditional promise in writing made by one person to another, signed by the promisor, engaging to pay on demand or at a fixed or determinable future time a fixed sum to or to the order of, a specified person or to bearer.

R

Related parties
Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Repo
Jargon for sale and repurchase agreement.

Reserve assets
Assets of a financial institution which form part of its reserve requirements with the Central Bank.

Reverse repo
The opposite of a repo, i.e. a purchase and resale agreement.

Revolving credit
A line credit that has terms permitting successive drawings and payments at the borrower's discretion. The funds available to the borrower are replenished by any repayments of principal.

Right of use asset
An asset that represents a lessee`s right to use an underline asset for the lease term

Risk-weighted assets
On-balance sheet assets and the credit equivalent of off-balance sheet assets multiplied by the relevant risk weighting factors.

S

Securitisation
This involves the transfer of a block of income producing assets to a vehicle company that finances the purchase through the issue of debt (usually notes of commercial paper).

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Segmental analysis
Analysis of financial information by segments of an enterprise specifically, the different geographical areas in which it operates. Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

Settlement date
The date on which a securities transaction is completed by actual exchange of securities for cash.

Short position
An excess of liabilities (and/or forward sale contracts) over assets (and/or forward purchase contracts). A dealer's position when the net of purchases and sales leaves a net sold or oversold position.

Subsidiary company
A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Suspense account
An account used to record items temporarily which are held subject to clarification and transfer to the appropriate account.

Syndication loan
A loan arrangement in which a number of banks, in a form of joint venture, provides funds which they would individually be unwilling or unable to provide. Syndications are used for customers whose scale of financing is too great for any single Bank to accommodate without distorting its loan portfolio.

T

Time deposit
An interest bearing deposit account which is subject to withdrawal only after a fixed term.

Tier I capital (Common Equity Tier I – CET I)
Common Equity Tier I (CET I) is a component of Tier I Capital that consists mostly of stated capital. It is a capital measure that was introduced as precautionary measure to protect the economy from a financial crisis.

Tier I capital (Additional Tier I Capital – AT I)
Additional Tier I Capital (AT I) is a component of Tier I Capital that comprises securities that are subordinated to most subordinated debt, which have no maturity, and their dividends can be cancelled at any time.

Tier II capital
Capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total capital
The sum of Tier I capital and Tier II capital. Trading Financial Assets and Liabilities A financial asset or financial liability is classified as held-for-trading is it is: (a) Acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) Part of a portfolio of identified financial instruments that are managed together for which there is evidence of a recent actual pattern of short-term profit taking; or (c) A derivative (except for a derivative that is designated and effective hedging instrument).

Transaction costs
Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Treasury bonds (T-Bond)
A long-dated security issued by the Central Bank of Sri Lanka. T-Bonds carry a coupon rate of interest.

V

Value added
Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital to Government by way of taxes and retained for expression and growth.

Value at risk (VAR)
A risk management methodology that estimates the potential loss arising from adverse movement in market interest or exchange rates over a defined holding period.

Vostro account
A local currency current account maintained with a bank by another bank (compare with Nostro account).

Y

Yield curve
A graph showing market interest rates as a function of maturity. Normally, the yield curve is upward sloping: interest rates increase with the term of the instrument.

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CORPORATE INFORMATION

Name of the Bank
People's Bank

Legal Status
A licensed commercial bank under the Banking Act No. 30 of 1988 incorporated as a commercial bank by People's Bank Act No. 29 of 1961.

Head Office (Registered Office)
No. 75,
Sir Chittampalam A Gardiner Mawatha,
Colombo 2, Sri Lanka.
Call Centre: 1961
Tel.: +94 11 232 7841-6,
+94 11 244 6316-19, +9411 248 1481
Email: info@peoplesbank.lk
Web: www.peoplesbank.lk
Swift: PSBKLKLX
VAT Registration No. 409000037-7000

Auditors
Auditor General
Auditor General's Department,
National Audit Office,
No. 306/72, Polduwa Road,
Battaramulla, Sri Lanka.

Acting Board Secretary
Ms Shyama Wijekoon,
Attorney-at-Law PGEDBM (IBSL)
Email: shyamaw@peoplesbank.lk

Corporate Banking Division
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Head Office Building, No. 75,
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+9411 248 1481 (ext. 1181)
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Email: cbdunit1@peoplesbank.lk,
sechead_cb@peoplesbank.lk

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Tel: +9411 243 7239-41,
+ 9411 232 0651-6
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Overseas Customer Services
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+9411 244 6409
Email: fastcash@peoplesbank.lk,
nrfc@peoplesbank.lk,
newnrfc@peoplesbank.lk,
teletran@peoplesbank.lk
SWIFT: PSBKLKLX

People's Card Centre
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Tel: +9411 249 0490/+9411 249 0406
Fax: +9411 216 9029
Email: card@peoplesbank.lk

Subsidiaries of People's Bank

People's Travels (Pvt) Ltd.
No. 59, D R Wijewardena Mawatha,
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Tel.: +9411 247 0190, +9411 239 6296
Fax: +9411 243 4530
Email: ptravel@peoplesbank.lk
Web: www.peoplestravels.com

People's Leasing & Finance PLC
No. 1161, Maradana Road, Borella,
Colombo 8, Sri Lanka.
Tel: +9411 263 1631
Fax: +9411 263 1000
Email: plclease@plc.lk
Web: www.plc.lk

Subsubsidiaries of People's Bank
(Subsidiaries of People's Leasing & Finance PLC)

People's Insurance PLC
No. 7, Havelock Road, Colombo 5.
Tel.: +9411 220 6406
Fax: +9411 220 6436

People's Leasing Property Development Ltd.
No. 1161, Maradana Road, Borella,
Colombo 8, Sri Lanka.
Tel: +9411 263 1631
Fax: +9411 263 1596

People's Leasing Fleet Management Ltd.
No. 1161, Maradana Road, Borella,
Colombo 8, Sri Lanka.
Tel: +9411 230 4464/5
Fax: +9411 230 2592

People's Micro-Commerce Ltd.
No. 1161, Maradana Road, Borella,
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Tel: +9411 281 7654/5
Fax: +9411 281 7653

People's Leasing Havelock Properties Ltd.
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Pride of the Nation

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