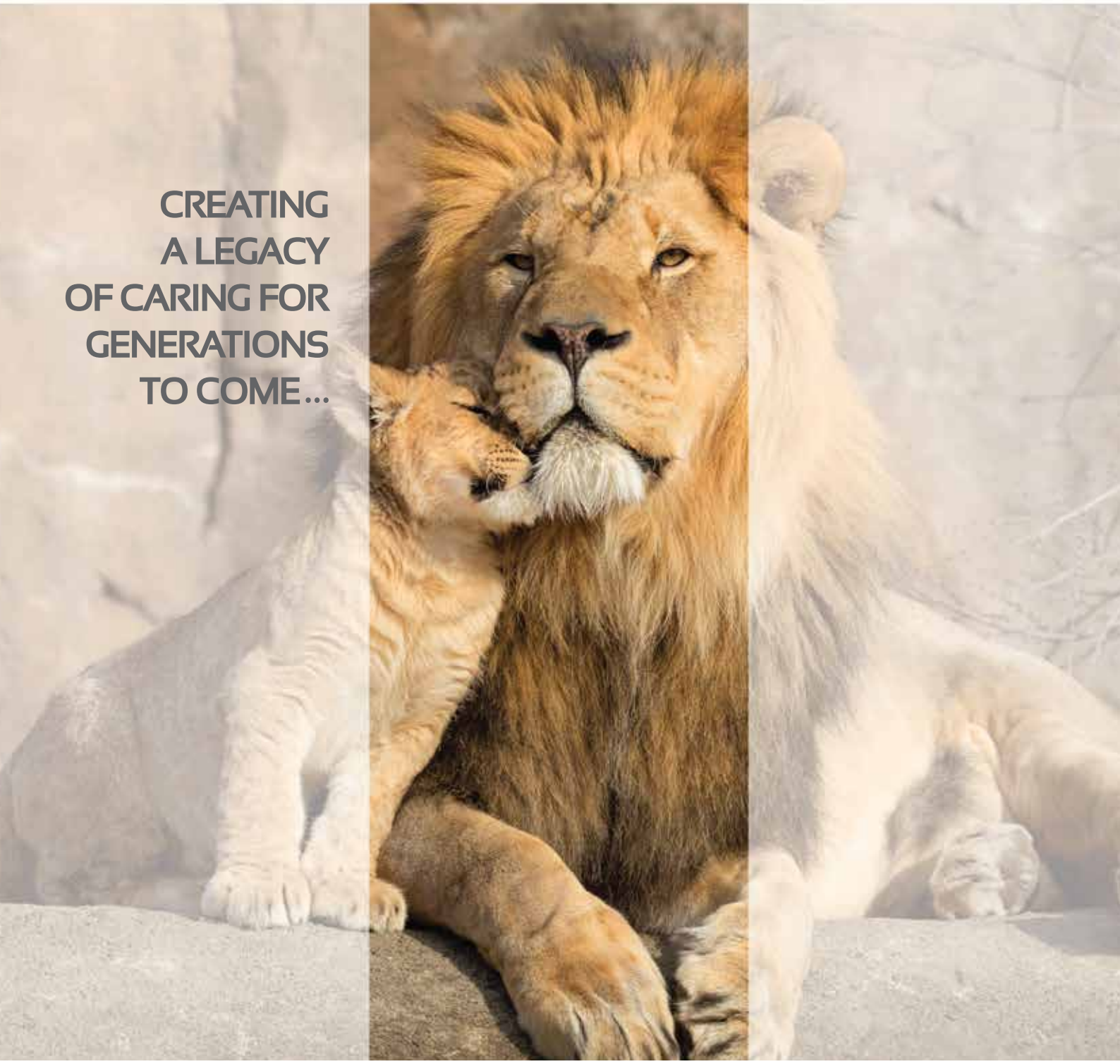
ANNUAL REPORT 2022

CREATING A LEGACY OF CARING FOR GENERATIONS TO COME...



PEOPLE'S BANK

Pride of the Nation

CREATING A LEGACY OF **CARING FOR GENERATIONS TO COME...**

The saga of People's Bank is one built on a legacy of **unmatched strength, capacity, resilience** and a **deep sense of care** for the customers it serves and ultimately Sri Lanka's economy which it aims to **dearly protect** and **push forward.** This is, and has always been, the **character** and **ingrained identity** of the Bank. Over the past **six decades,** the Bank has served generations of customers from **all** walks of life and **varying** socio economic and demographic profile through **both** good times and bad. Standing firm with **all** its stakeholders in this time of need, we look forward to **caring for** generations to come as we remain focused on our role to help usher in a **new era** of prosperity for the **entire** nation.

CONTENTS

3 About our Integrated Report

7
ABOUT PEOPLE'S BANK

8 Our Bank
9 Our Group
10 Our Journey
12 Highlights of the Year

15
REFLECTIONS FROM THE TOP

16 Letter from the Chairman
20 General Manager/ Chief Executive Officer's Review
24 Board of Directors
28 Corporate Management
36 Executive Management
38 Chief Managers

39
DRIVING VALUE CREATION

40 Operating Environment
47 Stakeholder Engagement
50 Materiality
55 Our Strategy
60 Our Value Creation Model and Capital Balances
62 Commitment to Sustainability

67
MANAGEMENT DISCUSSION AND ANALYSIS

68 Head of Finance's Review
72 Business Line Reviews
- 72 Retail Banking
- 73 Enterprise Banking
- 75 Corporate Banking
- 77 Treasury
- 78 Overseas Customer Services
- 80 International Banking

82 Manufactured Capital
87 Intellectual Capital
95 Human Capital
108 Social and Relationship Capital
- 108 Customer Capital
- 115 Business Partner Capital
- 120 Investor Capital
- 124 Community Capital

129 Natural Capital

137
GOVERNANCE

138 Risk Management Report
168 Corporate Governance
194 Board Subcommittee Reports
- 194 Board Audit Committee Report (BAC)
- 195 Board Human Resources and Remuneration Committee Report (BHRRC)
- 196 Board Integrated Risk Management Committee Report (BIRMC)
- 197 Board Executive Credit Committee Report (BECC)
- 198 Board Nomination Committee Report (BNC)
- 199 Board Investment Banking Committee Report (BIBC)
- 200 Board Information Technology Committee Report (BITC)
- 201 Board Strategic Planning Review Committee Report (BSPRC)

202 Directors' Statement on Internal Control over Financial Reporting
204 Auditor General's Assurance Report on Internal Controls

205
FINANCIAL STATEMENTS

206 Directors' Responsibilities for Financial Reporting
207 Auditor General's Report on Financial Statements
209 Income Statement
210 Statement of Comprehensive Income
211 Statement of Financial Position
212 Statement of Changes in Equity – Bank
214 Statement of Changes in Equity – Group
216 Statement of Cash Flows
217 Notes to the Financial Statements

325
SUPPLEMENTARY REPORTS

326 **Income Statement USD**
327 **Statement of Financial Position USD**
328 **Ten Year Summary – Bank**
329 **Ten Year Summary – Group**
330 **Basel III – Market Discipline Disclosure Requirement under Pillar III**
326 **External Assurance on Sustainability Report**
348 **GRI Content Index**
353 **Senior Managers**
356 **Branch Managers**
364 **Glossary of Financial/ Banking Terms**
368 **Corporate Information**

ABOUT OUR INTEGRATED REPORT

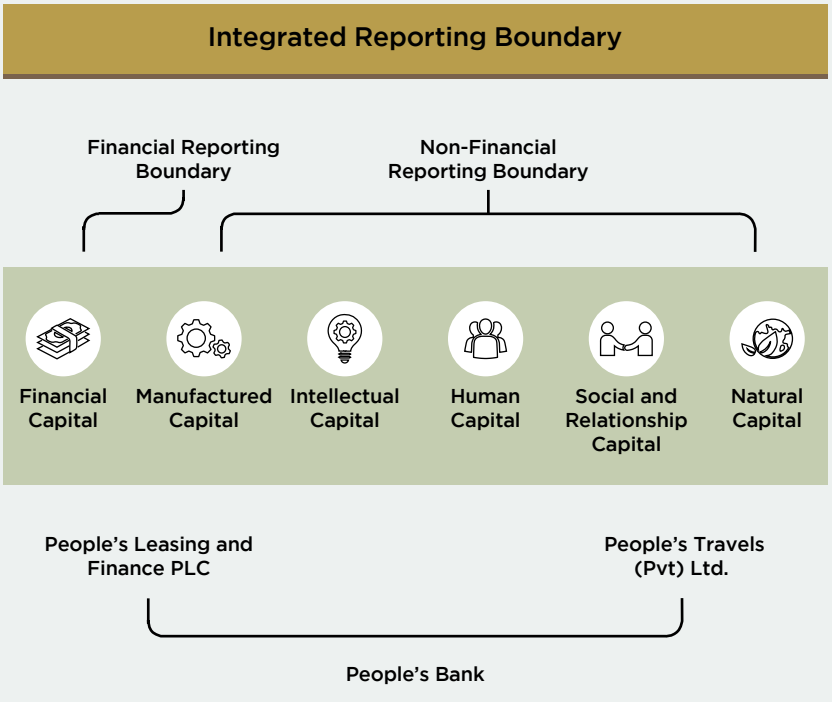
We have the pleasure of presenting to you the 8th Integrated Annual Report for People's Bank, covering the 12 month period ending 31 December 2022. It is a review of the Bank's performance in creating value for our stakeholders in the short, medium and long term, with reference to the six defined Capitals. It also describes the special efforts we have made to support our stakeholders – our clients, our staff, the government, and communities across the nation as we faced the unprecedented economic catastrophe and political uncertainty during the year.

This Report builds on our previous Integrated Annual Report published on 31 December 2021 and is consistent with our annual reporting cycle for both financial and sustainability reporting.

SCOPE AND BOUNDARY

The Report covers the operations of People's Bank and its subsidiaries People's Leasing & Finance PLC and People's Travels (Pvt.) Ltd. The key financial aspects included under the Financial Capital and Investor Capital are discussed with reference to the Group including the Bank, and the non-financial aspects covered by the Manufactured Capital, Intellectual Capital, Human Capital, and Social and Relationship Capital are discussed in the context of the Bank unless stated otherwise. The report retains our usual cycle for annual financial and sustainability reporting from 1 January 2022 to 31 December 2022.

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.



During the year under review, no significant changes took place in the size or structure of the company compared to the previous year.

VALUE CREATION

We have excelled in creating value for our stakeholders by staying true to our strategies and achieving the performance standards expected under the various capitals. Our value creation capital balances model is presented on pages 60 to 61, the strategy initiatives are presented on pages 55 to 59, and the capital performance is described on pages 68 to 136.

MATERIALITY

We have conducted materiality assessments, compiled the material matters and formulated the management responses to address the topics, and these resolutions can be seen in the section on pages 50 to 54. The material aspects identified guide the contents of the rest of the report. A major innovation we have made this year is to introduce a forward looking element into materiality. The material topics have been forecasted for a 5-10 year period. In line with this development, a future-oriented approach has been taken when describing the performance of the other capitals and the business units.

CAPITALS

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

- Financial Capital
- Manufactured Capital
- Intellectual Capital
- Human Capital
- Social and relationship Capital
  - Customer Capital
  - Community Capital
  - Business Partner Capital
  - Investor Capital
- Natural Capital

In the spirit of integrated reporting, the inter-connections between the capitals are also brought out when describing them.

STRATEGY

Our strategic performance has been reviewed on pages 55 to 59.

A new set of strategic objectives have been set out for the next two years, culminating in June 2025:

- **Driving** excellence
- **Building** Customer Centricity
- **Future-ready**

The **underlying** enablers are:

- **Lean-Agile** Mindset
- **Data-driven** Mindset
- **Growth** Mindset

The above have been formulated with the background of a volatile situation and the awareness that the banking industry is vulnerable to disruption.

REPORTING FRAMEWORKS

The following includes amongst others.

Regulations	Voluntary Standards
People's Bank Act No. 29 of 1961 (as amended)	Code of Best Practice on Corporate Governance issued by the Chartered Accountants of Sri Lanka in December 2017
Banking Act No. 30 of 1988 (as amended)	Global Reporting Standards of the Global Reporting Initiative
CBSL Directives	UN Sustainability Development Goals (SDGs)
Exchange Control Act No. 24 of 1953	Integrated reporting framework issued by the International Integrating Reporting Council (IIRC)
Financial Transactions Reporting Act No. 6 of 2006	
Prevention of Money Laundering Act No. 5 of 2006	
Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks	

People's Bank has reported the information cited in the GRI Content Index (page 348 to 352) for the period 1 January 2022 to 31 December 2022 with reference to the GRI standards.

CLASSIFICATION OF OUR REPORT

Transparency	Accountability	Governance	Sustainability
The Bank has endeavoured to present all information material to our stakeholders in this integrated report in a spirit of full disclosure. In addition to statutory reporting we have included several aspects of voluntary reporting as part of our integrated report.	The Bank has complied with legal requirements, rules and regulations with regard to accountability practices. Quality assurance checks have been signed off both internally and by recognised external professionals on the accuracy of the information contained in the report.	Good governance has been a watchword in the administration of the Bank from the inception, particularly as a state bank, and the levels of scrutiny are critical to ensure total compliance.	The Bank has a Corporate Sustainability Policy formulated to serve as a guide for decision makers to ensure that every aspect of the Bank's operation complies with the environment friendly philosophy of the organisation.

PRECAUTIONARY PRINCIPLE

We apply the precautionary principle with regard to our social and environmental sustainability. While being aware that our operations have an overall positive impact on society and the environment, we have taken the necessary steps to ensure that any risk of a negative impact is mitigated. These are described on pages 124 to 128 and 129 to 136 respectively, under the headings "Community Capital" and "Natural Capital".

QUALITY ASSURANCE

We have added more graphs, tables, and infographics, to improve the comparability and clarity of the data. describe Internal controls that are already in place, and enable traceability and verifiability that have made it easier to ensure the accuracy and consistency of the information. The increased use of visual components has improved the Report's readability and succinctness. All of the Bank's direct and indirect material impacts have been included to ensure that the report is comprehensive. We have made an effort to present a fair analysis of all pertinent information, and both internal and external assurances have been obtained to ensure the validity and dependability of the information.

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. Ernst & Young
Corporate Governance	Board of Directors, Internal Audit	The Auditor General's Department
Internal Control	Board of Directors, Internal Audit	The Auditor General's Department

THE EVOLUTION OF OUR INTEGRATED ANNUAL REPORT

KEY AWARDS AND RECOGNITIONS FOR THE 2021 ANNUAL REPORT

INTERNATIONAL ARC AWARDS 2022

Gold – Written Text: Banks
Gold – Financial Data: Banks: national

CMA EXCELLENCE IN INTEGRATED REPORTING AWARDS 2022

People's Bank 2021 Annual Report as one of the top ten "Best Integrated Annual Reports"

SOUTH ASIAN FEDERATION OF ACCOUNTANTS (SAFA) AWARDS

People's Bank 2021 Annual Report – Joint Bronze in the Public Sector Bank category: Being the only Public Sector Bank in Sri Lanka to be podiumed.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on assumptions and information that is currently available, and may include forecasts on the Bank's business prospects, anticipated developments, trends, and market conditions, operations, and exchange rates. By their very nature, they involve significant risks and uncertainties, and the actual results may differ from the forecasts.

VIDEO SNAPSHOT OF OUR ANNUAL REPORT

We are introducing a video summary of our Annual Report to enable you to get a quick overview of the salient information.

You can access the video from the below link
https://www.peoplesbank.lk/last-financial-result/

Scan to view

QUERIES AND FEEDBACK

We value your feedback to help us to improve future Reports. Please forward your comments, questions and suggestions to:

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7 ABOUT PEOPLE'S BANK

8 / Our Bank
9 / Our Group
10 / Our Journey
12 / Highlights of the Year

OUR BANK

People's Bank is the largest financial services provider in Sri Lanka based on customer numbers and geographical reach across the entire island. It has the largest branch network in the sector and, as a result, over 14.7 million customers across the nation. We serve customers from all walks of life, in addition to the Government, Corporate and SME sectors. The staff strength of the Bank stands at 7,377 spread across a network of 745 branches, providing industry-leading products and services, while upholding the highest standards of professionalism, sustainability, and compliance in all facets of its operations. Designated by the Central Bank of Sri Lanka as a Domestic Systemically Important Bank (D-SIB), the People's Bank has made a vital contribution to the economic development of the country for more than six decades, since it was established under the People's Bank Act No. 29 of 1961. The Bank continued to play its role as a premier State Bank by supporting the nation with financing for essential items throughout the economic turmoil of the year under review. In recent times we have moved heavily into digitalisation to the point where a majority of customer transactions are now conducted digitally. The Bank has also made a major contribution to promoting financial literacy country-wide.

OUR VISION

Inspiring the Nation towards Transformational Growth

BHAG

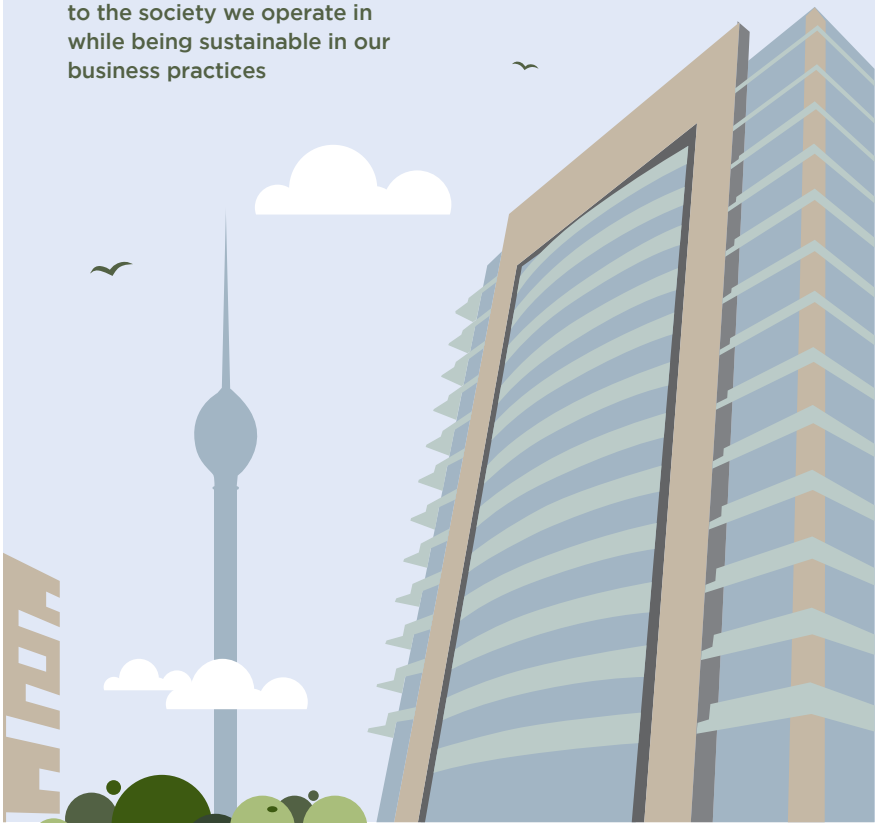
To be the most customer sought after bank with the industry best employee satisfaction levels.

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**

OUR VALUES

- **Being the pride of the nation**
- **Customer focus and agility**
- **Integrity and accountability**
- **Continuous learning culture and team spirit**
- **Empowerment and diversity**



OUR GROUP

PEOPLE'S BANK

Year of Incorporation
1961

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

Number of Branches
745

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

Performance Highlights
Assets LKR 2,972 Bn.
Profit after tax LKR 17.2 Bn.

Staff Strength
7,377

Ownership	75%	99%
	PLC PEOPLE'S LEASING	PEOPLE'S TRAVELS
Year of Incorporation	1995	1993
Customer Segments	Individuals Micro Enterprises Small and Medium Scale Businesses	Individuals Micro Enterprises Small and Medium Scale Businesses
Main Products and Services	Leasing and Hire Purchases Microfinance Deposits Loans	Inbound Travel Outbound Travel Destination Management
Performance Highlights	Assets LKR 195 Bn. Profit after tax LKR 4.1 Bn.	Assets LKR 92 Mn. Profit after tax LKR 10.4 Mn.
Number of Branches	111	2
Staff Strength	3,062	15

OUR JOURNEY

1961 to 1969

- Inaugurated on **1 July 1961.**
- **First branch** was opened at Duke Street, Colombo.
- **Commenced** pawning services.
- **Inaugurated** the Co-operative Rural Banking Scheme and a new Agriculture Credit Scheme becoming the pioneer lender to the small farm sector.

1970 to 1979

- **"*Athamaru*" loan scheme was introduced** to finance economic activities of the informal sector.
- **100th branch was opened** at Marandagahamula.
- **Employee count reached 5,000.**
- **First fisheries bank was opened** at Koralawella.

1980 to 1989

- **Launched** the Extended Minors' Savings Scheme.
- **300th branch was opened** at Ingiriya.
- Total number of **employees reached 10,000.**
- The **computerisation process began** at our Head Office and selected city branches and a Black Light System was introduced, substantially reducing customer turnaround time.

1990 to 1999

- **First ATM was installed** at the Headquarters Branch.
- The Bank **supported the Government's 200 Garment Factory Programme.**
- **160 branches** were computerised.
- **Launched *"Vanitha Vasana"*,** and ***"Isuru udana"*** savings schemes, ***"Surathura"*** loan Scheme, ***"Videshika"*** deposit scheme.

2000 to 2009

- ***"Jana Jaya",*** savings cum loan scheme was launched.
- The **Central ATM Switch** was introduced.
- The number of branches with People's Automated Banking System **(PABS) increased to 218** and 119 branches were connected to the Central ATM Switch.
- A **Treasury automation** package was implemented.
- The Bank **obtained the first ever public rating of BBB+** from Fitch Ratings Lanka.
- The Bank received the first capital tranche of LKR 2 Bn., second capital tranche of LKR 1 Bn. and third capital tranche of LKR 1.5 Bn. as the **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.
- For the first time, **received the SAFA (South Asian Federation of Accountants) Award** for the 2008 Annual Report.

2010 to 2019

- **Won one Grand Award and three Gold Awards** in the National Category at the 2012 International ARC Awards for the Bank's Annual Report 2011.
- **23 SME centres were established** across the island.
- People's Bank **became the first bank to be connected to the National Common ATM Switch.**
- The Bank's **asset base crossed one trillion rupees,** as the second largest bank in the industry.
- The 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.
- The Bank **launched a Green Banking Concept in demonstrating its sustainability commitments.**
- **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.
- **People's Wave became the most downloaded finance app** in Sri Lanka.
- **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.
- **The Bank signed the largest ever and the longest tenor bilateral funding facility** secured by any commercial bank in Sri Lanka to date.

2020

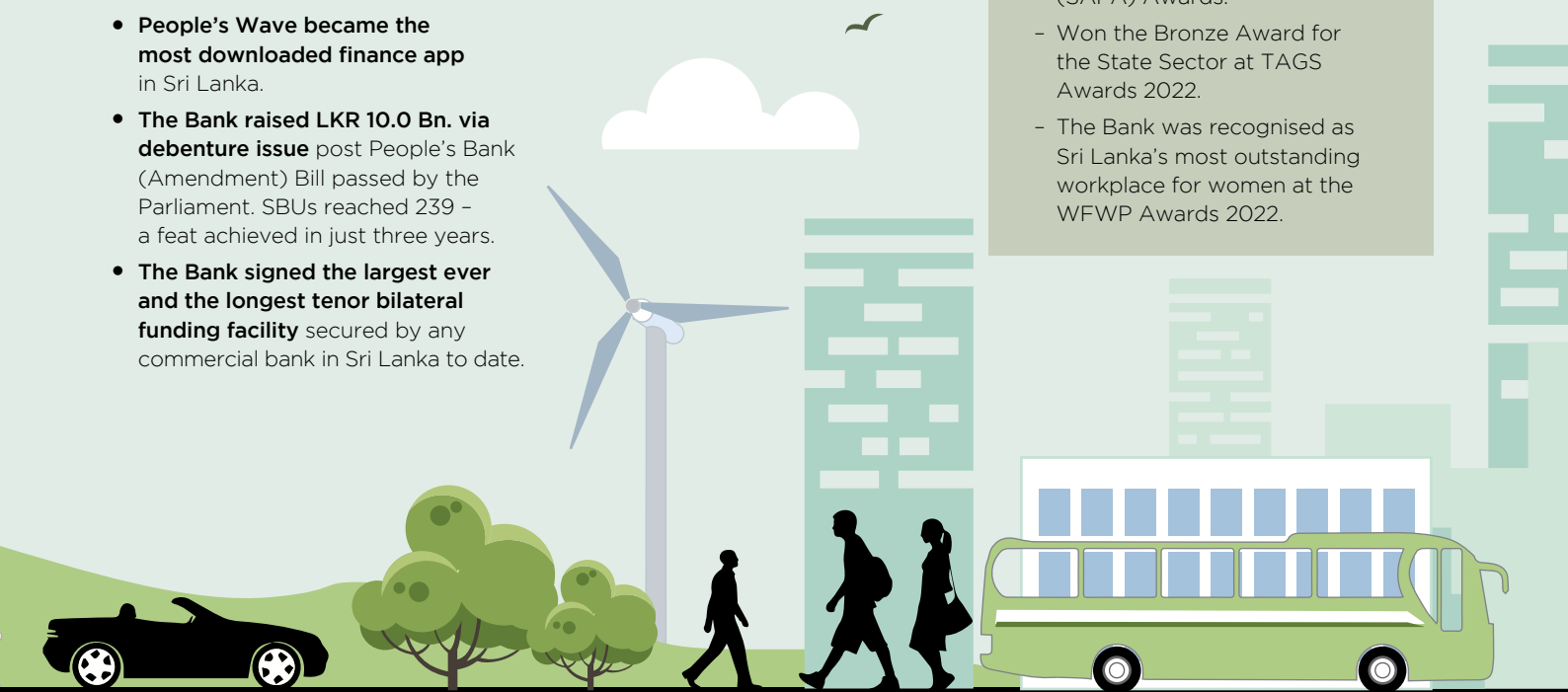
- **The Bank extended unparalleled support to the Nation,** customers and the general public during COVID-19. People's Bank raised the highest ever by the industry to date, Tier II Debentures worth LKR 20 Bn.
- The **only entity amongst the Top 3 and only state bank to have a positive incline in brand value.**

2021

- The Bank **celebrated its 60th Anniversary** with the theme "Pride of the Nation".
- **People's Wave became the most downloaded mobile app** in the country with over a million active users, and the launch of People's Pay wallet app.

2022

- **Launched two new brands,** Excelsior and Elegance, to cater to the premium market segment.
- Introduced our CSR umbrella Brand ***"Mahajana Mehewara".***
- Successfully **launched Strategic Planning 2022-2024.**
- The **Bank received several awards and accolades during the year** from international entities, as well as Sri Lankan organisations.
  - People's Bank was named among the World's Top 1000 Banks by the Banker Magazine, while Asian Banker Magazine included us among the Asian Banker's Top 500 Banks.
  - Received four awards at the International ARC Awards 2022 including two gold awards.
  - Annual Report 2021 was among the top ten Best Integrated Annual Reports at the CMA Excellence in Integrated Reporting Awards 2022.
  - The Bank was a joint Bronze winners at the Public Sector Bank category in South Asian Federation of Accountants (SAFA) Awards.
  - Won the Bronze Award for the State Sector at TAGS Awards 2022.
  - The Bank was recognised as Sri Lanka's most outstanding workplace for women at the WFWP Awards 2022.

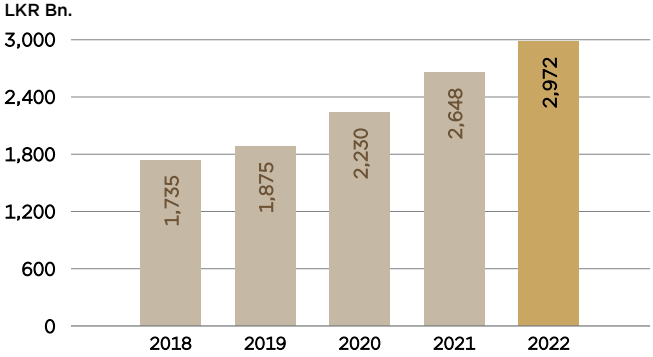


HIGHLIGHTS OF THE YEAR

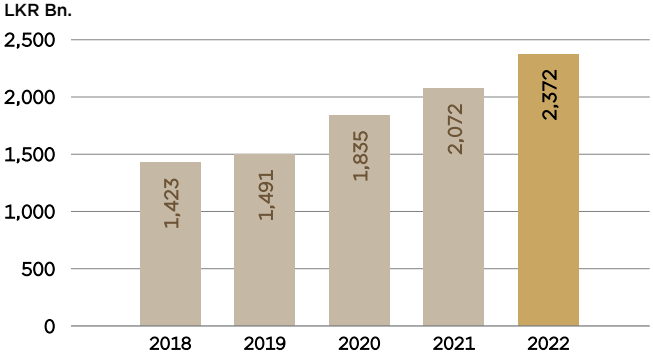
	Bank			Group		
	2022	2021	Change %	2022	2021	Change %
Operating performance (LKR Bn.)						
Interest income	321.9	197.3	63.1	351.4	222.4	58.0
Net interest income	75.8	82.5	-8.1	91.0	96.9	-6.0
Gross income	357.2	207.2	72.4	391.2	236.8	65.2
Operating profit before taxes on financial services	29.5	37.2	-20.7	36.7	45.7	-19.7
Profit before tax	21.3	30.4	-29.8	26.7	37.2	-28.3
Income tax	4.1	6.7	-37.8	6.2	9.2	-32.7
Profit after tax	17.2	23.7	-27.5	20.5	28.1	-26.9
Special levy and dividends paid	0.7	2.2	-69.9	0.9	2.3	-63.4
Retained profit	16.5	21.5	-23.2	19.7	25.7	-23.6
Financial position (LKR Bn.)						
Total assets	2,972.0	2,647.6	12.3	3,133.1	2,832.6	10.6
Gross loans and receivables	1,915.8	1,937.0	(1.1)	2,061.1	2,103.6	-2.0
Total deposits	2,371.5	2,071.5	14.5	2,450.1	2,168.7	13.0
Shareholders' funds	145.3	136.1	6.8	189.3	177.6	6.6
Performance ratios (%)						
Return on average assets (before tax)	0.8	1.2		0.9	1.4	
Return on equity (after tax)	12.2	19.9		11.2	17.7	
Interest margin	2.7	3.4		3.1	3.7	
Cost to income ratio	50.4	51.1		53.1	53.3	
Loans to deposits ratio	80.8	93.5		84.1	97.0	
Assets quality ratios (%)						
Impaired loans (Stage 3) ratio	12.8	4.0		12.6	4.7	
Impairment (Stage 3) to Stage 3 loans ratio	29.9	50.2		30.5	46.9	
Statutory liquid assets ratio (%) (min. requirement – 20%)						
Domestic banking unit	21.4	23.5				
Off-shore banking unit	20.1	25.9				
Liquidity coverage ratio (%) (min. requirement – 90%)						
Liquidity coverage ratio – rupee	213.1	155.8				
Liquidity coverage ratio – all currency	119.5	105.7				
Regulatory capital ratios (%)						
Common equity Tier 1 capital (min. requirement – 8.0%)	11.4	12.0		12.8	13.0	
Tier 1 Capital (min. requirement 2022 – 9.5%/2021 – 8.5%)	11.9	12.6		13.3	13.4	
Total Capital (min. requirement 2022 – 13.5%/2021 – 12.5%)	16.3	17.8		17.2	17.9	
Shareholder ratios (LKR)						
Earnings per share	17,192	23,720	-27.5	19,572	26,351	-25.7
Net asset value per share	145,294	136,077	6.8	189,332	177,638	6.6

HIGHLIGHTS OF THE YEAR

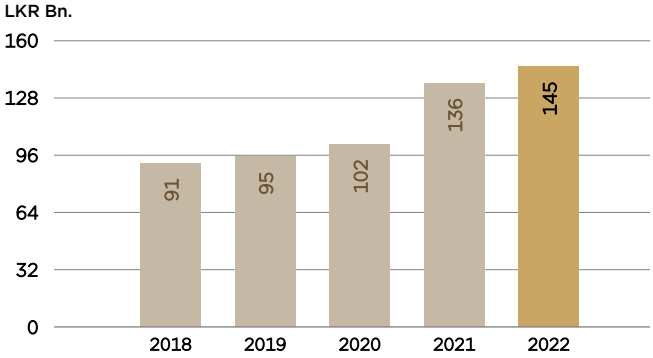
TOTAL ASSETS



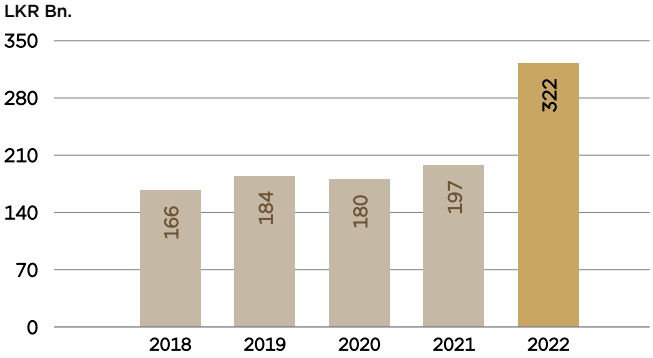
TOTAL DEPOSITS



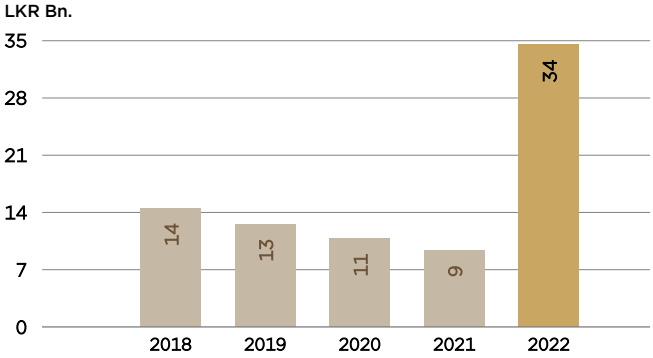
TOTAL EQUITY



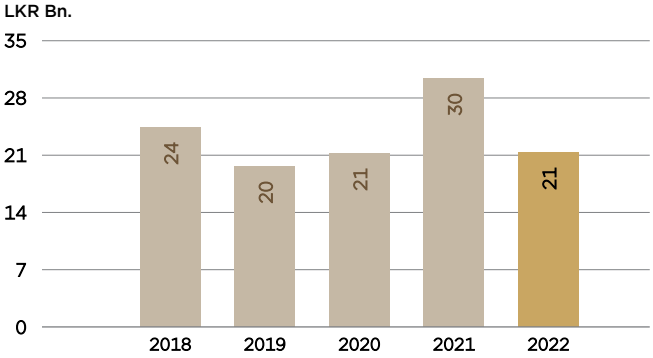
INTEREST INCOME



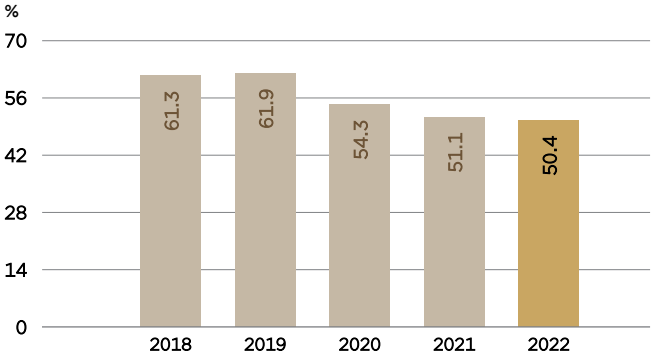
NON-FUNDED INCOME



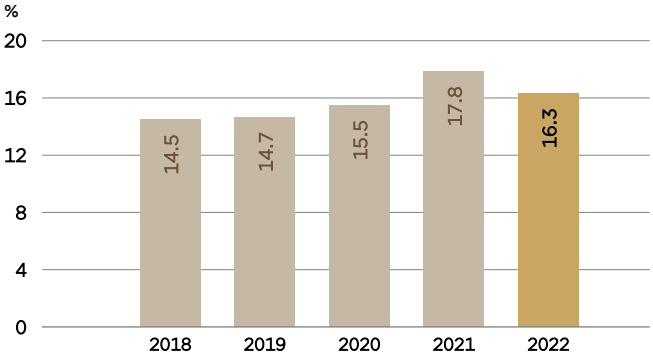
PROFIT BEFORE TAX



COST TO INCOME RATIO



TOTAL CAPITAL RATIO



HIGHLIGHTS OF THE YEAR

MARKET AND CUSTOMER

Over 73% of conventional banking transactions conducted through digital channels

682,300
new customers onboarded

Launch of two new product packages to cater to the premium customer segment

Over 90%
customer satisfaction

EMPLOYEES

Total number of employees **7,377**

Female employees **4,542**

Retention ratio **97.6%**

Total training hours **176,577**

Total training cost **LKR 92.8 Mn.**

Average training time per permanent employees **24**

Number of hours on digital training **40,970**

NATIONAL CONTRIBUTION

Total special levy and dividends paid **LKR 661 Mn.**

Provision of financial support for essential sectors such as exports, energy, and health

BUSINESS PARTNERS

258
registered suppliers

LKR 14.8 Bn.
value created for local suppliers

COMMUNITY

Launch of "*Mahajana Mehevara*" CSR Brand

LKR 38.2 Mn.
Investment in CSR initiatives

ENVIRONMENT

2.7 million
accounts opened digitally

20
green branches powered by solar energy

15
REFLECTIONS FROM THE TOP

16 / Letter from the Chairman
20 / General Manager/Chief Executive Officer's Review
24 / Board of Directors
28 / Corporate Management
36 / Executive Management
38 / Chief Managers

LETTER FROM THE CHAIRMAN

We remain committed to prioritising customer experiences as the bedrock on which we will seek organic growth. This entails creating innovative banking products and services that address changing customer needs and making them available via channels closer to them.

The year under review was the most turbulent one for the Sri Lankan economy in 75 years. The country was plagued with reduced remittances, shortage of foreign exchange, high inflation, and lack of Rupee liquidity. In addition, there was the default on foreign debt, which resulted in Sri Lanka's standing with international creditors plummeting. This macro-economic turmoil permeated virtually every sector of the economy.

Naturally, the Bank could not remain unscathed by turbulence of this magnitude. Market circumstances considered, the Bank had to steer through stresses on many fronts be liquidity, high interest rates, provision for high impairment, and squeezed profit margins. The country downgrade led to our foreign partners suspending lending, which further constrained particularly dollar liquidity.

A NEW STRATEGIC DIRECTION

The unprecedented situation we were faced with necessitated a course correction in mid-stream. The existing strategic plan for the period 2022-2024 was superseded by a new plan for the period June 2022 to June 2025. The plan was

formulated with inputs from all key stakeholders, including front-line staff at the branches.

Concurrent with the introduction of the new plan we also promulgated a new Vision and a Big Hairy Audacious Goal (BHAG).

The Vision: Inspiring the nation towards transformational growth
BHAG: To be the most customer sought after bank with the industry best employee satisfaction.

Given the context in which the plan was formulated we have brought a process-oriented view into the next level of the plan. This includes three strategic objectives: Driving excellence, building customer centricity, and being future ready. Associated with the objectives we have identified three strategic enablers: Lean-agile mindset, data driven mindset, and growth mindset.

A plan giving emphasis to the above gives greater flexibility, in a milieu such as the present where rigid, inflexible plans are not appropriate. The plan is further elaborated on with 26 strategic initiatives for the business units, 6 for the supporting units, and around 600 Key Performance Indicators (KPIs), but we anticipate some flexibility in implementation.

NAVIGATING THROUGH THE STORM

Despite all the stresses of the macro-economic environment, the Bank turned in a very commendable financial performance during the year. The Group recorded a post-tax profit of LKR 20.5 Bn. and a Capital Adequacy Ratio of 17.2% at the end of the year. Both these achievements are praiseworthy when viewed through the lens of the operating context. People's Bank has been accorded global recognition by the esteemed The Banker Magazine (UK) as one of the Top 1000 Banks in the World, based on ranking of Consolidated Tier-I capital.

People's Bank's resilience and ability to operate under challenging conditions can be attributed to its prudent risk management practices, proactive measures taken to address potential risks and challenges, and strong liquidity position.

In the context of limitations of resources we have had to prioritise their utilisation. With foreign exchange being limited, and the need to service essential imports, we had to reserve any remaining resources for priority areas such as export industries. In view of all things known, we had to also take a cautious view of credit growth.

To address asset quality deterioration, the Bank has implemented rigorous risk management practices to identify and manage potentially problematic loans. In terms of liquidity, we have maintained a robust liquidity position by actively managing liquidity risk and maintaining adequate liquidity buffers at all times. In the face of high inflation and interest rates, People's Bank engaged in optimising its funding mix, diversifying its funding sources, and managing its interest rate risk exposure.

HELPING SMEs AND THE RURAL SECTOR

People's Bank was established with the primary objective of serving the rural population, and we have stayed true to our founding principles by continuing as an affordable and accessible bank that aids economic growth in line with the Government's objectives while serving the public. Although the current interest rates have made it challenging for SMEs to obtain loans, we have been able to provide some funding at concessional rates when we were supported by an international financial institution. We also stretched out a helping hand to the agricultural sector, to support supply chain financing and assist smallholders. Once economic stability is restored and the rates decrease, they will be able to resume their usual operations with our unwavering support. We will continue to grow while staying true to our fundamental values as a bank that supports its customers and the economy.

DIGITAL LEADERSHIP AND CUSTOMER-CENTRICITY

Customer centricity is one of our strategic objectives, and digitalisation is a major thrust of another, driving excellence.

In this regard, I am happy to note that our digitally-led and customer-centric approach has enabled us to remain competitive, and achieve significant growth over the years, and we will continue to build on this strategy. Moreover, we are open to exploring the possibility of offering a complete virtual banking experience in the future, as we strive to become the premier digital bank in Sri Lanka. The success of our digitalisation strategy is shown by the fact that over 70% of transactions are carried out digitally.

Another initiative undertaken during the year was the launch of the new website, to which we will be adding a Chatbot in the near future. The Contact Centre will be given enhanced capabilities, and People's Pay features will continue to be improved.

To commemorate the World Children's Day, People's Bank hosted a Minor Savings Deposit Campaign from 1 October to 31 December 2022, targeting minor accounts, featuring a variety of creative activities.

STEPPING INTO NEW AREAS

Another innovative step was channels catering exclusively to the affluent customer market, with Excelsior and Elegance services already being launched, and are in the process of being enhanced. The "*Vaasi Kotiyai*" promotion for overseas remittances is ongoing and has yielded encouraging results. It has significantly increased our market share in a domain where it was formerly relatively small.

We moved beyond our traditional role when we partnered with the Export Development Board and the BOI to build linkages between local manufacturers and overseas buyers, creating new export opportunities. The EDB was able to assist our customers on many aspects of exporting including export procedures, regulations, and shipping.

REBRANDING AND "SOFT SELLING"

We recognised the fact that in the present economic climate many customers may not be responsible to an aggressive "hard sell" approach. We made a major shift in our branding when we brought our CSR activities under our "*Mahajana Mehewara*" Brand, which became an integral part of the People's Bank Brand. The activities carried out under the new brand included providing water and electricity to remote rural schools. To mark our 61st anniversary, we donated medical supplies valued at LKR 5 Mn. to Lady Ridgeway Hospital, meeting their urgent requirements. Additionally, we made an initial donation of LKR 1 Mn. to the "Feed A Child" fundraising initiative, which was organised by "*Manusath Derana*" and Sri Lanka College of Paediatricians.

We have formed a collaborative partnership with the Central Cultural Fund (CCF), which operates under the Ministry of *Buddhasasana*, Religious and Cultural Affairs. Through this partnership, we have developed an advanced digital e-Ticketing solution for CCF, comprising a multilingual, web-based platform for purchasing tickets, and mobile apps for CCF to verify tickets. This initiative is expected to boost our foreign currency deposit base and generate additional income from fees for the Bank.

We have also brought the "soft sell" strategy into social media. Through our YouTube channel we disseminate content such as cuisine, not directly related to banking or any business objectives. The physical appearance of our branches also underwent a facelift, with use of colour and layout to facilitate customer convenience.

DEVELOPING SOFT SKILLS FOR THE FUTURE

One of our BHAG goals is to attain the industry's best employee satisfaction levels. Employee satisfaction is being continually gauged through a satisfaction survey, and we keep striving to increase our score.

As result of the changes that took place in 2022 and aligned with the new strategic plan, and the strategic objectives, we are re-orienting our training more towards soft skills. A programme was commenced for Executive Management which focused more on analytical and conceptual skills needed by staff at middle and senior levels. Amongst the subjects to be covered are developing customer service excellence, customer centric mindset, and personality development.

Talented, high performers leaving the Bank remains a serious concern, to which we have responded by implementing incentive programmes, such as competitive salaries, opportunities for career advancement and professional development, and creating a positive work environment that fosters employee engagement and loyalty.

A new HR system is in the pipeline, which will automate most of the HR processes which are at present mostly being carried out manually. This will give us greater flexibility, among other things, in setting pay-scales for contract staff. This will be of great advantage in areas such IT, where we are suffering from a drain of skilled staff due to our salaries not being competitive with the private sector, and we are facing constraints in how far we can upgrade remuneration for permanent staff.

STRATEGY FOR THE COMING YEAR AND FACING FUTURE CHALLENGES

The third of our strategic objectives is being future ready. People's Bank maintained its profitability in a very volatile environment by taking a proactive approach to enhance resilience, which involved identifying potential risks and taking steps to mitigate them. This included taking a flexible strategic approach, leveraging technology, and diversifying the portfolio.

To minimise the impact of market or bank-wide shocks, we have prepared recovery plans that involved stress testing the portfolio, implementing contingency plans, and identifying potential sources of liquidity. The Bank has implemented an early warning monitoring system to identify potential risks before they became significant. This involved analysing market trends, monitoring customer behaviour, and tracking regulatory developments.

Given the current economic conditions, we have slowed down loan growth and focused on quality rather than quantity. This involved tightening the credit standards, reducing the risk exposure, and focusing on higher-margin business lines. With an increasing proportion of our customer base coming from youth and millennials we can expect our focus on digitalisation to pay increasing dividends in the years to come.

People's Bank will continue to support exporters and encourage manufacturing by providing financing to export-oriented businesses, offering incentives for local manufacturers, and promoting trade finance activities. The Bank will offer long-term loans for project funds by providing financing for infrastructure projects, renewable energy projects, and partnering with government agencies to promote export activities. Renewable energy can be expected to be a priority area in the future given the current concerns with global warming.

Responding to the threat of cybersecurity, People's Bank has put in place robust security measures and protocols to protect against cyberattacks. This includes regular vulnerability testing and penetration testing, implementing multi-factor authentication for user accounts, encrypting sensitive data, and regularly updating security software and systems to stay ahead of emerging threats. We are very conscious that this is an area where threats are ever-increasing, and we have to be continuously vigilant.

We are closely monitoring developments on many fronts including those from a macroeconomic stand point, and, at every instance so necessary, we have engaged with various stakeholders including, amongst other, the Ministry of Finance and the Central Bank of Sri Lanka to ensure that matters of a delicate nature are dealt with in a manner it saves the Bank and the entire financial system from any undue consequence.

"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!"

Responding to the threat of impairment staging classification, People's Bank has adopted a rigorous approach to risk management and credit analysis, such as implementing more stringent lending criteria, conducting thorough due diligence on borrowers, and monitoring their creditworthiness more closely. The Bank is also closely looking at the sustainable developments from the ESG front.

EXPRESSING MY SINCERE GRATITUDE

Challenging times such as these calls for men and women of exceptional wisdom and vision, who have the courage to take tough and correct decisions. I extend my sincere appreciation and gratitude to His Excellency the President who also serves as the Minister of Finance, the Honourable Prime Minister and the State Ministers of Finance for their leadership in these extraordinarily difficult circumstances. I also extend our heartfelt gratitude to the Governor of the Central Bank of Sri Lanka, the Secretary to the President, the Secretary to the Treasury and the Senior Advisors to the President 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 challenging times. I also owe a big thank you to our outgoing Chief Executive Officer/ General Manager Ranjith Kodituwakku for his dynamic leadership and the incumbent Acting Clive Fonseka, together with the Management and staff at all levels for their 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!

Sujeewa Rajapakse
Chairman

2 March 2023

GENERAL MANAGER/CHIEF EXECUTIVE OFFICER'S REVIEW

Improvements in the macroeconomic environment will help us reformulate our strategies and implement progressive programmes that reflect the new economic reality.

Blessed with a rich legacy of surmounting formidable obstacles over the past 61 years, People's Bank successfully overcame some of the most daunting challenges it has ever had to endure as an institution. The severe economic upheaval experienced by the entire country formed the basis of such challenges, aggravated by negative growth in Gross Domestic Product (GDP), the collapse of tourism, sharp drop in inward remittances and the downgrade of the nation's sovereign ratings. This resulted in a substantial reduction in foreign currency facilities, which was worsened by international banks' reluctance to lend to Sri Lankan banks under such adverse circumstances.

PRIORITISING NATIONAL INTERESTS

The foremost challenge faced by the Bank was that of managing liquidity, which was already scarce, given the country's dire economic straits. This was further compounded by the pivotal role played by the Bank in helping the nation overcome its foreign currency shortfall, by providing US Dollar (USD) facilities for importing essential items. People's Bank helped finance approximately 50% of the oil imports which amounted to approximately USD 2 Bn., as well as 100% of the coal imports, most of the pharmaceutical imports by the

State Pharmaceuticals Corporation (SPC), including vaccines, in addition to fertiliser imports during the recent years. Our support for State-Owned Enterprises (SOEs) for the procurement of essentials amounted to over LKR 700 Bn. Extending such facilities placed enormous pressure on the Bank's liquidity.

"When the Government declared a debt moratorium, most banks experienced significant impairments in their USD assets. People's Bank successfully avoided this situation due to our minimal exposure to International Sovereign Bonds (ISB) and zero exposure to Sri Lanka Development Bonds (SLDB) compared to leading private banks and other state bank peers."

SIGNIFICANT CHALLENGES

The unprecedented increase in interest rates, which began in April last year was yet another obstacle faced by the Bank. The shortfall in the interbank markets reached a record high of LKR 800 Bn. in April 2022. Banks were compelled to pay interest rates of 30-33% to attract and retain deposits. In addition, many retail customers, as well as companies which were in serious financial difficulties, were unable to honour their commitments on loan repayments. These developments brought about serious stresses on Rupee liquidity.

The Sri Lankan Rupee (SLR) depreciated by nearly 80% in a short period, accompanied by high levels of inflation. When the Government declared a debt moratorium, most banks experienced significant impairments in their USD assets. People's Bank successfully avoided this situation due to our minimal exposure to International Sovereign Bonds (ISB) and zero exposure to Sri Lanka Development Bonds (SLDB) compared to leading private banks and other state bank peers.

FINANCIAL PERFORMANCE

The Group has recorded a modest post tax profit of LKR 20.5 Bn., which is a 26.9% reduction compared to the 2021 figure of LKR 28.1 Bn. This impaired performance was primarily due to our emphasis on supporting the national economy, rather than pursuing more lucrative opportunities.

Our capital levels remain the highest among systemically important banks in Sri Lanka, with a capital adequacy ratio of 16.3% and in Group level it was 17.2%. Additionally, we have provided impairments at 35 cents per USD on International Sovereign Bonds (ISBs), which is one of the highest provisions currently available in the country.

We have not paid any significant dividends to the Government in recent years, and this has been one of the main reasons for our very healthy capital adequacy levels. Additionally, we have issued Tier two debentures that comply with Basel III requirements, totalling LKR 35 Bn. in 2019 and 2020 for LKR 10 Bn. and LKR 20 Bn. respectively at a weighted average rate of approximately 11% which is a highly favourable rate.

Key aspects of our Group performance for the year include:

- Top line/total operating income reached LKR 130.0 Bn. (2021: LKR 110.7 Bn., 17.4% growth)
- Overall net deposits grew by 13.0% to reach LKR 2,450.1 Bn. Of this, LKR deposit growth was 10.2%
- Net loans contracted by 3.8% to LKR 1,915.8 Bn. (end 2021: LKR 1,990.7 Bn.)
- The Bank's Tier 1 and Total CAR were 13.3% and 17.2% respectively
- All key regulatory measures were all successfully met at the year end.

CORE AREAS OF FOCUS

We have remained unwavering in our goal of boosting inward foreign currency remittances, and have successfully increased our share from 6% to more than double that amount. Our efforts were aided by the favourable exchange rates, in addition to our new programme, "People's Remittance *Wasi Kotiyai*" promotional campaign, which motivated customers with benefits worth over LKR 30 Mn., and helped drive the increase in numbers.

Our emphasis on digital channels has yielded a significant increase in digital transactions, accounting for over 73% of the overall. We aspire to further enhance this figure to 80% or even 90%. Through the People's Bank app, our customers can perform various transactions in a matter of seconds, thus adding convenience to their lives. Our digitisation drive has enabled us to curtail on new recruitments, as most functions are now automated.

Despite the fuel crisis, the majority of our branches and Special Banking Units (SBUs), as well as 1,300 ATMs, CDMs, and kiosks, remained operational. Additionally, we facilitated the disbursement of pensions, salaries, and government subsidies without interruption.

Current focus is on recovering loans granted to state owned enterprises, private enterprises, and individuals.

We have reduced our focus on credit growth due to the prevailing high rates of interest. Credit growth is expected to resume during the second half of 2023 along with the expected reduction in inflation and interest rates.

"As a state bank that is committed to national development, we have been steadfast in our support of Micro, Small and Medium Enterprises (MSMEs) which are vital for the economy."

HELPING THE MSME SECTOR

As a state bank that is committed to national development, we have been steadfast in our support of Micro, Small and Medium Enterprises (MSMEs) which are vital for the economy. We have financing schemes which offer loans at attractive rates, in addition to subsidy schemes, interest concessions, and moratoriums. The Bank has taken steps to enhance financial inclusion, promote financial literacy, assist with cash-flow management, accounting and aid in the expansion of businesses among entrepreneurs. Various training programmes have been organised for entrepreneurs, including some in collaboration with the Export Development Board, as many SMEs are engaged in exports. Additionally, we have helped SMEs establish partnerships with foreign buyers and initiated certain programmes with foreign embassies.

STRENGTHENING CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL AUDIT

We have adapted the Code of Best Practice in Corporate Governance for public enterprises in Sri Lanka. This is an initiative of the Ministry of Finance, with inputs from the Chartered Accountants of Sri Lanka and the Basel Committee on Banking. We have implemented the suggestions of the Basel Committee on Banking, which stipulate that board members do not carry executive responsibility, within People's Bank. We have appointed boards or committees in accordance with CBSL requirements.

The compliance function has been established to ensure compliance with statutory regulations, CBSL guidelines and directives and adherence to the People's Bank code of conduct and anti-money laundering policies. We have appointed regional internal audit officers along with off-site audit reviews. They are currently developing a digitised dashboard for monitoring certain areas under credit risk management. We continue to update policies and procedures and have established credit concentration across single borrower limits, geographical limits, industry sector-wide limits and are setting sector limits. Additionally, we have established key risk indicators for all core departments and are strengthening the functions of the Rehabilitation Revival Unit, Credit Post-grant Review Units, Regional Risk Officers and the stress testing exercise by covering more areas. We are also strengthening the newly established Information Security Unit, which is headed by the Chief Information Security Officer.

POSITIVE OUTCOMES FROM THE IMF BAILOUT

The International Monetary Fund (IMF) Extended Funding Facility (EFF) of USD 2.9 Bn. has been approved, followed by the World Bank's immediate commitment of USD 1.5 Bn., and ADB commitment of USD 1 Bn. Combined with the USD 3 Bn. expected through the restructuring of selected state-owned enterprises (SOEs), the Government hopes to implement an ambitious plan to boost foreign reserves to at least USD 8.4 Bn. in the near future. The restructuring effort will be supported by the Asian Development Bank (ADB), the World Bank, the United States Agency for International Development (USAID) and the Japan International Cooperation Agency (JICA).

IMF facilities come with conditions such as economic reforms and policies aimed at addressing the root causes of the country's economic problems with the aim of placing the country on a sustainable path. It can help boost investor confidence, reduce borrowing costs and help unlock additional sources of financing from other multilateral institutions. In addition, interest rates and the exchange rates will be market–based, leading to improved exports, remittances, and reduced imports. Banks can expect foreign currency funding as relationships with the foreign lenders improve.

FOCUSING ON THE FUTURE

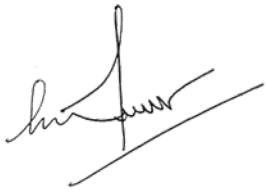
We are in the process of implementing a state-of-the-art HR system that will improve the efficiency in the Bank and minimise manual procedures. We have also formulated a strategic plan for 2022 - 2024 that is focused on driving excellence, building customer-centricity and being future-ready.

To improve financial stability, we intend implementing measures such as enhancing LKR deposits; increasing inward remittances and export revenue; recovering loans given to state enterprises, businesses and individuals; supporting micro, small, and medium-sized enterprises which are essential for improving the overall economy, and enhancing customer service efficiency. These steps can boost liquidity, creditworthiness, revenue and customer loyalty leading to sustainable growth.

With the potential improvements in the overall economy, including enhanced foreign currency reserves, improved liquidity, as well as higher inward remittances and tourism incomes, Sri Lanka could look forward to a very positive year ahead, paving the way for future growth and development.

MY APPRECIATION

Our greatest asset is our staff, who have displayed tremendous loyalty and commitment, working as a team with determination, that has helped us overcome many barriers and obstacles. My thanks are due to each and every one of them. I also wish to express my sincere appreciation to our Chairman, the Board of Directors, the Governor and Officials of the CBSL, Secretary to the Treasury and Officials of the Ministry of Finance, my fellow members of the Corporate and Executive Management, our unions, and most importantly our customers who continue to inspire us with their patronage and loyalty. Together we can work towards our goal of making People's Bank the best bank in Sri Lanka.



Clive Fonseka
General Manager/
Chief Executive Officer (Actg.)

2 March 2023

BOARD OF DIRECTORS

From left to right:

Ms Shyama Wijekoon (Secretary to the Board of Directors), Mr Dushmantha Thotawatte, Mr Manjula Wellalage, Mr Sujeewa Rajapakse

From left to right:

Mr Isuru Balapatabendi, Ms Visakha Amarasekere, Mr A M P M B Atapattu

BOARD OF DIRECTORS

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) and a Member of the Association of Chartered Certified Accountants (ACCA). 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). 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.

He was the Chairman of 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.

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 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 Pittsburgh, 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 the 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 also served in the Director Boards of Sri Lanka Ports Authority and Colombo West International Terminal (Pvt) Ltd. He is currently the Chairman of People's Insurance PLC and serves as a Director of Celio Naturals (Pvt) Ltd. as well.

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 2022/23 and also for the year 2023/24.

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.

Ms Visakha Amarasekere
Director

Ms Visakha Amarasekere counts nearly 20 years of experience at the General Treasury and is currently attached to the Department of External Resources as an Additional Director General (CUD). She holds a BSc (Hons) Degree in Economics and Management from the University of London, UK and a Master of Arts in Development Economics from the Vanderbilt University USA. She is a Chartered Management Accountant (CIMA) UK and is also a Chartered Public Finance Accountant. She has represented the General Treasury on the Boards of several key State-Owned enterprises including the Ceylon Electricity Board, Ceylon Petroleum Corporation, and Bank of Ceylon.

Mr Dushmantha Thotawatte

Director

Mr Dushmantha Thotawatte was appointed to the Board of Directors with effect from 8 July 2022.
Mr Thotawatte is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka with a Bachelor of Commerce (Special Degree) from the University of Sri Jayawardenepura & a Master in Financial Economics from the University of Colombo. He is an accomplished leader who has extensive experience in the field of Financial Management, Corporate Governance, Strategic Management and Public Relations, together a successful track record as Chief Executive Officer, Chief Financial Officer and Chief Internal Auditor in many state-owned enterprises and private organisations and counts over 40 years of experience.

Mr A M P M B Atapattu

Director

Mr A M P M B Atapattu currently serves as a Secretary to the Ministry of Trade, Commerce and Food Security and he has over 28 years of work experience in Banking, Finance and Business Administration.

He Graduated from University of Sri Jayawardenapura with a BSc in Management (Public Administration) Second Class Upper Division Degree, he holds a Master's Degree in International Development from Flinders University, Australia and has completed two post graduate diplomas: Economic Development from University of Colombo and Development Economy from Institute of Development Economies, Japan. His research topic was "Rationalisation for Industrial Development in Sri Lanka" for his Master's Degree in International Development awarded by Flinders University in 2004 and he holds a Licentiate Certificate of the Institute of Charted Accountancy, Sri Lanka.

Before assumed the current position he worked as a Senior Additional Secretary to the President of Sri Lanka and he was assigned to duties of economic reforms in the section of Stabilisation Recovery and Growth of the economy. As Director General, (Planning) of the Ministry of Education he was prepared of Capital Budget of the Ministry of Education and monitored the development projects of the Ministry.

Further, as a Deputy Secretary to the Treasury, he was in charged for donor funding projects, implementation of trade and tariff policies of the Government, and monitoring of national budget. Also, he has initiated the 'Enterprise Sri Lanka Subsidiary Loan & Development Programme' as a national budget proposal of the Government.

Mr Atapattu has functioned as Director General of the Department of Development Finance he has initiated warehouse receipts financing system for grain farmers and fertiliser cash subsidy scheme for farmers. Feather, he has implemented Refinanced Loan Schemes called "Small and Medium Enterprise Regional Development Project" (SMERDP) funded by the Asian Development Bank, "Small and Medium Enterprise Development Facility Project" (SMEDeF) funded by the World Bank, "Small and Medium Enterprises Line of Credit (SMELoC) funded by the Asian Development Bank. In addition, he has executed the SME Development Programme funded by the German International Cooperation (GIZ) as well as the "Rooftop Solar Power Generation Line of Credit Project" (RSPGLoC) funded by the Asian Development Bank.

Mr Atapattu has also performed his duties as the Treasury Representative on the Board of Investment, People's Bank, Sri Lankan Airline Limited, Sri Lanka Tea Board, National Lotteries Board, Sri Lanka Savings Bank, Lankaputhra Development Bank, Cooperative Wholesale Establishments, University of Vocational Technology and the Insurance Regulatory Commission of Sri Lanka.

Ms Shyama Wijekoon

Secretary to the Board of Directors

Ms Shyama Wijekoon joined the Bank in 2016 as an Assistant Secretary to the Board and subsequently promoted to the position of Board Secretary in 2022. She is an Attorney-at-Law. She holds a Masters of Law (LLM) degree from Cardiff Metropolitan University – UK. In Addition she has successfully completed a course on Shipping Law & Practice from Institute for the Development of Commercial Law and Practice – ICPL – CCC.

Apart from all above, she holds a post Graduate Executive Diploma in Bank Management (PGEDMB) from the Institute of Bankers of Sri Lanka which will immensely help her to keep her career up in the capacity of the Secretary to the Board.

She is a life Member of Association of Professional Bankers of Sri Lanka.

CORPORATE MANAGEMENT

Front row left to right:
Ms Preethie Katulanda, Ms Roshini Wijerathna, Mr Azzam A Ahamat, Mr Rohan Pathirage

Back row left to right:
Ms Ganga Senanayake, Ms Nilmini Premalal, Mr A S M W Kumarasiri, Mr K A Nihal

Front row left to right:

Mr Clive Fonseka, Ms Renuka Jayasinghe, Ms P S J Kurukulasooriya, Ms Nipunika Wijayaratne, Ms Shameela Loku Kaluge

Back row left to right:

Mr Dhammika Dasa, Mr E A M Dissanayake, Mr Wickrama Narayana, Mr T M W Chandrakumara

Mr Clive Fonseka

Chief Executive Officer/General Manager (Actg.)

A veteran in the industry, Mr Fonseka, is a Fellow of the Institute of Bankers of Sri Lanka and holds an MBA from the Postgraduate Institute of Management at the University of Sri Jayewardenepura. He has been awarded a Distinction for the ACI Dealing Certificate and has accumulated over 29 years of experience in the field of Treasury Management. Furthermore, he is a Certified Member (CMA) of the Institute of Certified Management Accountants of Australia.

During the period spanning from 2018 to 2020, Mr Fonseka assumed the role of President of the Association of Primary Dealers, in addition to holding membership in several committees, including the National Payment Council, Financial System Stability Consultative Committee, and the task force dedicated to studying and designing new alternative benchmark interest rates. Additionally, he held membership in the Market Working Group on Domestic Financial Market Infrastructure Development Project of the Central Bank of Sri Lanka (CBSL). Presently, he serves as a Non-Independent Non-Executive Director at People's Leasing & Finance PLC, People's Leasing Property Development Limited, Lankan Alliance Finance Limited, and LankaPay (Pvt) Limited. Credit Information Bureau of Sri Lanka, National Payment Council, Sri Lanka Banks' Association (Guarantee) Ltd., Financial Ombudsman Sri Lanka (guarantee) Ltd., Institute of Bankers of Sri Lanka and Lanka Financial Services Bureau Limited. Prior to his current appointments, he acted as Chief Examiner for the Institute of Bankers of Sri Lanka's IABF/DABF Examinations.

In 2002, Mr Fonseka commenced his tenure at People's Bank, and since November 2011, he has been a member of the Bank's Senior Corporate Management team as Deputy General Manager. In this role, he oversaw the Foreign Exchange operations, activities of the Primary Dealer Unit, Investment Banking Unit, and USD and LKR Money Market operations, in addition to managing relationships with local and foreign commercial banks and financial institutions. Prior to joining People's Bank, he held senior positions at American Express Bank and Standard Chartered Bank.

Mr Fonseka has been appointed as the Acting Chief Executive Officer/General Manager of People's Bank with effect from 2 January 2023.

Mr Rohan Pathirage

Senior Deputy General Manager – Overseas Customer Services

With over 28 years of experience in Human Resources, Legal and Administration in the banking sector, Mr Rohan Pathirage is a highly qualified and accomplished professional. He holds a Master's Degree in Banking from Massey University, New Zealand, as well as a Postgraduate Diploma in Banking. In addition, he is an Attorney-at-Law, holding a Law Degree from the University of Colombo. He has served as a senior member of People's Bank Corporate Management team, and has been a member of key management committees.

Mr Pathirage currently holds the position of Senior Deputy General Manager – Transaction Banking and Overseas Customer Services of People's Bank. He also serves as Director of People's Leasing & Finance PLC, Chairman of People's Leasing Havelock Properties Limited, Director of People's Leasing Fleet Management Ltd., Director of People's Micro Commerce Limited, Director of Lankan Alliance Finance Limited, Bangladesh, Director of People's Travels (Pvt) Ltd., and Alternate Director of the Institute of Bankers of Sri Lanka.

In his previous role as Senior Deputy General Manager (Human Resources and Legal) of People's Bank, Mr Pathirage successfully managed the Bank's workforce of over 10,000 employees and oversaw senior executive recruitments in line with the Bank's HR requirements. He also led the Bank's legal team of 70 members and functioned as Deputy General Manager – Secretary to the Board of Directors of People's Bank. His administrative support has been invaluable to all matters relating to the Bank's Board of Directors and its various subcommittees.

Ms Renuka Jayasinghe

Deputy General Manager – Retail Banking

Ms Renuka Jayasinghe, who commenced her career at the Bank as a Management Trainee in 1987, has more than 36 years industry experience. Her career trajectory in Branch Banking has shown a rapid ascent through the ranks, taking up positions such as Branch Manager, Zonal Senior Manager, Regional Manager, Assistant General Manager, Deputy General Manager (Cooperative and Development), Deputy General Manager (Retail Banking, Process Management, and Quality Assurance), and Deputy General Manager (Business Support Service). Currently, she serves as the Deputy General Manager (Retail Banking).

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

Mr Azzam A Ahamat

Head of Finance

Mr Ahamat joined People's Bank on 3 January 2017, bringing with him a wealth of experience spanning nearly two decades in strategic financial management, alternate investments, and risk management, having served in prestigious institutions both locally and internationally. He has worked with some of the largest multinational professional service firms and Tier I service providers across a multitude of sectors and market spaces.

Mr Ahamat holds several high-profile professional memberships, including Fellow Membership of the Chartered Institute of Management Accountants (UK), Fellow Membership of the Association of Chartered Certified Accountants (UK), and Fellow Membership of the Institute of Certified Management Accountants of Sri Lanka. Additionally, he is a Certified Practising Accountant (AUST.), a Certified Member of the Chartered Institute for Securities & Investment (UK), and the Chartered Institute of Credit Management (UK), as well as a Technical Specialist of the Institute of Risk Management (UK).

Mr Ahamat functions as a Director of People's Leasing & Finance PLC, People's Insurance PLC and Lanka Alliance Finance Limited Bangladesh.

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 28 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 currently heads the Risk Management and Credit Control functions of the Bank, where she has served for over 32 years. Her experience in the Bank's Treasury Division spans over 26 years, during which she has deputised the Primary Dealer Unit since 2003, and the Treasury thereafter. Since 2017, she has been actively involved in strengthening the Bank's risk management processes, playing a key role in this area.

Being highly qualified in her chosen profession, Ms Wijerathna's academic qualifications include a Bachelor of Science (Physical Science) with a Second Class Upper from the University of Colombo, a Master of Business Administration Finance) from the same university, and a Diploma in Treasury and Risk Management from IBSL. She has also obtained a distinction for the ACI Dealing Certificate – ACI, Financial Markets Association, and is an Associate Member of the Institute of Bankers of Sri Lanka.

Ms Wijerathna has held leadership positions in various professional associations, having been a President and Secretary of the Association of Primary Dealers, and currently, a member of the Sri Lanka Forex Association and Association of Professional Bankers. She is also an Ex-Co member of the Association of Banking Sector Risk Professionals, and serves as a member of the Governing Board of the Institute of Bankers of Sri Lanka.

Ms Nipunika Wijayaratne

Deputy General Manager – Banking Support Services

Ms Nipunika Wijayaratne serves as the Deputy General Manager of Banking Support Services, counting over 32 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 Preethie Katulanda

Chief Law Officer

Ms Preethie Katulanda is a senior legal professional with 29 years of active practice as an Attorney-at-Law. She also holds a Master of Business Management (HRM) Degree from the University of Colombo, in addition to having successfully completed professional qualifications in Human Resource Management from the Institute of Personnel Management (IPM).

Ms Katulanda began her legal career as a legal intern at People's Bank, and has since gained close to two decades of experience working as an individual practitioner and as a member of the corporate sector, with 17 years of service in this role. During this period, she has worked in various legal divisions and held senior positions in Finance Sector – Business Establishments that are subject to monitoring by the Central Bank of Sri Lanka (CBSL).

On 1 December 2021, Ms Katulanda assumed the position of Additional Chief Law Officer, and she was subsequently promoted as the Chief Law Officer on 23 December 2022.

Mr Dhammika Dasa

Chief Information Officer

Counting 26 years experience in the IT industry, Mr Dhammika Dasa serves as the Chief Information Officer (CIO) at People's Bank. He has considerable exposure to and expertise in a diverse range of disciplines, including Strategic Management, Programme Management, Project Management, Infrastructure Technology Management, Software Development, and Implementation Exposure. Over the years, he has honed his skills across a number of domains such as Finance, Insurance, Banking, Manufacturing, Logistics, and Leisure in Sri Lanka, Australia, and New Zealand. Additionally, he possesses a comprehensive understanding of Information security implementations.

Mr Dasa obtained a BSc Degree in Mathematics and Computer Science from the University of Kelaniya. Prior to taking up his current position at the Bank, he has held multiple Senior Management positions at prominent organisations such as Aitken Spence Group, KPMG Sri Lanka, and Fiserv.

Mr K A Nihal

Deputy General Manager – Human Resources

Mr K A Nihal, who currently holds the position of Deputy General Manager – Human Resources, joined the Bank in 1994 as a Management Trainee. He counts over 28 years of experience across disciplines such as Branch Operations, Information Technology, Treasury, and Human Resources.

He holds a Bachelor of Management (Special) Second Upper Degree offered by the University of Sri Jayewardenepura. In addition, he holds the professional banking qualification, Diploma in Banking and Finance from the Institute of Bankers of Sri Lanka (IBSL) and he has completed the Diploma in Professional Human Recourse Management from CIPM Sri Lanka. Mr Nihal also possesses a certificate on Treasury and Foreign Exchange Operations.

Mr E A M Dissanayake

Chief Internal Auditor

Mr Mahinda Dissanayake, possessing over 30 years of experience in Branch Banking and Internal Auditing, serves as the Chief Internal Auditor at People's Bank at present. He is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka (FCA) and an Associate Member of the Institute of Bankers of Sri Lanka (AIB).

In addition, he holds an MBA from the University of Colombo and a Bachelor of Science Degree in Public Administration (General) from the University of Sri Jayewardenepura. Furthermore, he has obtained a Diploma in Information Systems, Security Control, and Audit from the Institute of Chartered Accountants of Sri Lanka, awarded with technical collaboration from the Institute of Chartered Accountants of India.

Mr A S M W Kumarasiri

Deputy General Manager – International Banking

Mr A S M W Kumarasiri, who counts more than 36 years banking experience, and over 20 years in international trade related service at the People's Bank, International Banking Division, currently serves as its Deputy General Manager. He holds a Bachelor of Sciences Degree in Public Administration with a Second Class Honour from University of Sri Jayewardenepura, as well as an MBA (Finance) from the University of Colombo. He is also an Associate of the Institute of Bankers of Sri Lanka.

He holds many prestigious positions in professional Associations relevant to his long years of specialised banking expertise in trade finance operations, including immediate past president of Trade Finance Association of Bankers (TFAB), Banking Committee member of the International Chamber of Commerce Sri Lanka, Executive Committee member of the Lanka SWIFT User Group and Ex-Co member of the Association of Professional Bankers of Sri Lanka (APB). He also serves as a Director of People's Travels Ltd.

Mr Wickrama Narayana

Deputy General Manager – Enterprise Banking

Having joined People's Bank as a Management Trainee in 1994, Mr Wickrama Narayana has amassed more than 28 years experience in various aspects of banking such as Branch Banking, Corporate and Offshore Banking, as well as strategic planning. His expertise in SME lending with specialised focus on small business lending, project finance, entrepreneurship development, business revival, and rehabilitation, spans over 12 years. At present, he leads Enterprise Banking in People's Bank, where he applies his expertise across Commercial Credit, SME, Development Finance, Microfinance, Commercial Banking, and Business Revival.

Mr Narayana obtained a Bachelor of Science Degree in Business Administration from the University of Sri Jayewardenepura, followed by an MBA in Banking and Finance from the Postgraduate Institute of Management University of Sri Jayewardenepura, and an MSc Degree in Management from the University of Sri Jayewardenepura. Additionally, he is a Fellow Member of the Institute of Bankers of Sri Lanka.

Prior to his tenure at the Bank, Mr Narayana served in various private sector manufacturing companies. He currently lectures at the University of Sri Jayewardenepura, the University of Colombo, the Institute of Bankers of Sri Lanka, and the Center for Banking Studies at the Central Bank of Sri Lanka (CBSL).

Ms Nilmini Premalal

Deputy General Manager – Payment, Process Management & Quality Assurance

Ms Nilmini Premalal, who functions as Deputy General Manager – Payment, Process Management and Quality Assurance, joined People's Bank in 2002 as a Management Trainee. She counts about 20 years of experience within the Bank, serving in the Finance & Management Accounting Department for over 18 years, and then moving on to the Strategic Planning, Performance Management and Research Department for a two-year period.

While serving as Deputy Head of Finance, Ms Premalal implemented several specialised initiatives which made a significant contribution to the Bank's overall performance. As Assistant General Manager, she played a key role in creating and developing the Bank's strategic plan, covering the areas of Strategic Planning, Performance Management, and Research Department.

Ms Premalal holds a BSc Business Administration (Special) Degree with Second Class Upper Division from the University of Sri Jayewardenepura, and an MBA from the University of Kelaniya. She is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka (FCA), a Certified Management Accountant of Sri Lanka (FCMA), and an Associate Member of the Institute of Bankers of Sri Lanka (IBSL). She has also contributed her knowledge to the banking community through visiting lectures and evaluating examinations at the IBSL Sri Lanka. She is a member of the Association of Professional Bankers Sri Lanka and has partly completed the CIMA (UK).

Ms Premalal currently serves as a Director on the Board of People's Micro Commerce Ltd. and she previously served as a Director on the Board of People's Merchant Bank and concurrently held the position of Chairman of the Board Audit Committee at People's Merchant Bank.

Mr T M W Chandrakumara

Deputy General Manager – Channel Management

Mr Chandrakumara commenced his career at People's Bank as a Management Trainee in 1994, accumulating more than 29 years of experience in the banking industry. He currently serves as the Deputy General Manager (Channel Management).

During the course of his career, he has participated in various exposure programmes, both locally as well as internationally, acquiring extensive knowledge in business banking management practices at various management-level capacities.

From 2018 to the end of 2020, Mr Chandrakumara held the position of Assistant General Manager (Banking Support Services), overseeing six departments: Supplies, Transport, Security, Maintenance Engineering, Building Engineering, and Desktop Publishing. During this period, he gained invaluable experience in procurement, construction and maintenance, stores and inventory control, in addition to transport and security procedures. From 2020 to 2023, he acted as Assistant General Manager (IT Administration and Business Support) and Assistant General Manager (Channel Management Department), where he gained significant exposure in implementing the 5S system to the Branch Network and CEFT operations.

Mr Chandrakumara holds a Second-Class Upper Division Degree in BCom (Special) from the University of Kelaniya and an International Diploma in Supply Chain Management (International Trade Centre/WTO (UNCTAD), Geneva, Switzerland). He is an Associate Member of the Institute of Certified Management Accountants of Australia (CMA), a Licentiate of The Institute of Chartered Accountants of Sri Lanka (LICA), a member of the Accounting Technicians of Sri Lanka (MAAT), and the Institute of Bankers of Sri Lanka (AIB). Additionally, he is a Corporate Member of the Institute of Supplies and Materials Management of Sri Lanka (MISMM).

Mr Chandrakumara has been in charge of the Service Delivery Channels, which includes 743 regulatory units of the Branch Network comprising ATMs, CDMs, CRMs, and KIOSKs since December 2022.

Ms Ganga Senanayake

Deputy General Manager – Recoveries

Having commenced her career with People's Bank in 1990 as a Management Trainee, Ms Ganga Senanayake counts more than 32 years of experience in the banking industry. During this period, she has held several key positions in the Branch Banking Services, including Branch Manager, Regional Manager, and Assistant General Manager. Currently, she serves as the Deputy General Manager of the Recoveries Department.

Ms Senanayake obtained a Second Class Upper Division Special Degree in BSc Agriculture from the University of Peradeniya. She is an Associate Member of the Institute of Bankers of Sri Lanka. She has also acquired extensive knowledge and experience in the fields of Debt Recovery and Credit Administration, and has been appointed as a resource person for many "Knowledge Enhancement" programmes organised by the Staff Training College of the Bank.

Prior to joining the Bank, Ms Senanayake worked as an assistant lecturer on a probationary basis in the Faculty of Agriculture at the University of Peradeniya. As an innovative thinker, she has made significant contributions to numerous successful initiatives aimed at achieving the Bank's strategic objectives, including the Network Rationalisation project in 2021/22.

Ms Shameela Loku Kaluge

Deputy General Manager – Treasury, Investment Banking and Financial Institutions (Actg.)

Ms Shameela Loku Kaluge commenced her career with the Bank in 2002 as a Management Trainee, gaining over 20 years of experience in the Bank's Treasury Unit. She has ascended rapidly to her current position as the Acting DGM of the Treasury, Investment Banking, and Financial Institutions functions of the Bank. Through 2011 and 2022, Ms Loku Kaluge deputised in several areas of the Treasury functions, including the Primary Dealer Unit (PDU), and since 2017, she has been overseeing the overall functions of the Treasury and PDU.

She holds a Bachelor of Science Degree in Biological Science with a Second Class Upper from the University of Kelaniya, a Master of Science in Computer Science from the University of Colombo, and an MBA (Finance) with distinction from Cardiff Metropolitan University, UK. Additionally, she holds a Diploma in Treasury, Investment, and Risk Management from the Institute of Bankers of Sri Lanka (IBSL). She has also achieved a distinction in the ACI Dealing Certificate and is an Associate Member of the IBSL.

Ms Loku Kaluge was appointed as a Director of the Association of Primary Dealers (APD) in 2017 and currently serves as the Secretary of APD. She also serves as a member of the Sri Lanka Forex Association and the Association of Professional Bankers.

EXECUTIVE MANAGEMENT

Front row left to right:

Mr L U L Alwis, Mr Mangala Kariyawasam, Mr Anura Dissanayake, Mr Nalaka Wijayawardana, Ms Aruni Liyanagunawardana
Mr Prasad Ariyawanse, Ms Sriya Galappaththi, Ms Samanthi Senanayake

Back row left to right:

Mr Naleen Pathiranage, Mr Anura Perera, Mr Yasas Rajapakse, Ms Deepika Premadasa, Mr Shantha Gangabadage
Mr Indika Kodithuwakku, Ms Gayathri Jayasena

Front row left to right:

Mr A U A Anzar, Mr Lakmal Jayarathne, Ms Thushari Hewawasam, Ms Dhammika Dasanayake
Mr Jayanath Dias, Mr Saman Samarakoon, Mr R Ravikaran

Back row left to right:

Ms Virajini Munasinghe, Mr Manjula Dissanayake, Mr Nalin Perera, Ms Nilanthi Rubasinghe
Mr T G S P Kumarasiri, Mr Chaminda Ihalakorala, Ms Indumini Rathnayake, Ms Sadhana Perera

CHIEF MANAGERS

1. **Mr K K N Priyantha**
   Chief Manager – Investigation & Inquiries Department
2. **Ms M V P Peiris**
   Regional Manager – Nuwara-Eliya R.H.O.
3. **Mr D M Kapila**
   Regional Manager – Kandy R.H.O.
4. **Mr N K Wimalasiri**
   Regional Manager – Galle R.H.O.
5. **Mr D S P N Rathnayaka**
   Regional Manager – Matara R.H.O.
6. **Ms V G Kanagasabai**
   Regional Manager – Trincomalee R.H.O.
7. **Mr P A P R S Perera**
   Regional Manager – Kurunegala R.H.O.
8. **Mr E P A Sisira Kumara**
   Regional Manager – Batticaloa R.H.O.
9. **Mr S L M A S Samarathunga**
   Regional Manager – Colombo North R.H.O.
10. **Mr H G N Arohana**
    Regional Manager – Hambanthota R.H.O.
11. **Ms K A A S Peiris**
    Regional Manager – Puttalam R.H.O.
12. **Mr R M N P Gunathilaka**
    Regional Manager – Monaragala R.H.O.
13. **Mr A Danawalavithana**
    Regional Manager – Anuradhapura R.H.O.
14. **Mr B S Ranatungage**
    Regional Manager – Colombo Outer R.H.O.
15. **Ms W D P D Buddhika**
    Regional Manager – Kalutara R.H.O.
16. **Mr H M U H Herath**
    Regional Manager – Ratnapura R.H.O.
17. **Mr G R S Kodagoda**
    Regional Manager – Gampaha R.H.O.
18. **Ms P G N P Liyanage**
    Regional Manager – Polonnaruwa R.H.O.
19. **Ms A M V D L Adikari**
    Regional Manager – Kegalle R.H.O.
20. **Mr M S Kanakkahewage**
    Regional Manager – Colombo South R.H.O.
21. **Mr K Kodeesswaran**
    Regional Manager – Jaffna R.H.O.
22. **Ms M M A Amarasiri**
    Regional Manager – Ampara R.H.O.
23. **Mr G D N L Potthewela**
    Regional Manager – Badulla R.H.O.
24. **Mr A Jayaasith**
    Regional Manager – Wanni R.H.O.
25. **Mr D M D Dissanayaka**
    Regional Manager – Matale R.H.O.
26. **Ms G A A Ranasinghe**
    Chief Manager – Human Resources Department
27. **Mr G H U S Gunaratne**
    Chief Manager – Staff Training College
28. **Ms M T S N Samarasekara**
    Chief Manager – Supplies & Stores Department
29. **Ms L N A N K Nissanka**
    Chief Manager – Commercial Credit
30. **Mr M H M Rizan**
    Chief Manager – Internal Audit Department
31. **Mr W A L Weerasooriya**
    Chief Manager – Risk Management & Credit Control
32. **Mr H D Gunarathna**
    Chief Manager – Information Technology Department
33. **Ms W D Piyaseeli**
    Chief Manager – Internal Audit Department
34. **Ms K Subasinghe**
    Chief Manager – Corporate & Institutional Banking Division
35. **Mr N Sriskantha**
    Chief Manager – Centralized Back Office
36. **Mr R L J Peiris**
    Chief Manager – Credit Review Department
37. **Ms V P Abeyratne**
    Chief Manager – Corporate & Institutional Banking Division
38. **Mr S M A R Senanayaka**
    Chief Manager – Corporate & Institutional Banking Division
39. **Mr A M M S M Ruwais**
    Chief Manager – Internal Audit Department
40. **Mr M S C P T Marasinghe**
    Chief Manager – People's Card Centre
41. **Ms M V D Perera**
    Chief Manager – G.M.'s Department
42. **Ms L P N Gunawardhana**
    Chief Manager – Development & Micro Finance Department
43. **Ms R Arunasalam**
    Chief Manager – Overseas Customer Services
44. **Ms A D R Mendis**
    Senior Law Officer – Corporate & Institutional Banking Division
45. **Ms D S Lawrence**
    Senior Law Officer – Colombo North R.H.O.
46. **Mr J Jayawardena**
    Senior Law Officer – Colombo Outer R.H.O.
47. **Ms Y K Athauda**
    Senior Law Officer – Legal Department
48. **Ms P R K N Fernando**
    Senior Law Officer – Legal Department
49. **Ms S M D Kumari**
    Senior Law Officer – Anuradhapura R.H.O.
50. **Ms V K Subasinghe**
    Senior Law Officer – Legal Department
51. **Mr H C K Gunawardena**
    Chief Manager – Engineering Services
52. **Ms C V Ebeneezer**
    Chief Dealer – Treasury Unit
53. **Ms D E H Weerasuriya**
    Chief Dealer – Treasury Unit
54. **Ms W W T R Fernando**
    Chief Dealer – Treasury Unit
55. **Mr K M C B Senaratne**
    Chief Security Superintendent – Security department
56. **Mr A M T N De Silva**
    Chief Manager – IT Infrastructure & Operations

39 DRIVING VALUE CREATION

40 / Operating Environment
47 / Stakeholder Engagement
50 / Materiality
55 / Our Strategy
60 / Our Value Creation Model and Capital Balances
62 / Commitment to Sustainability

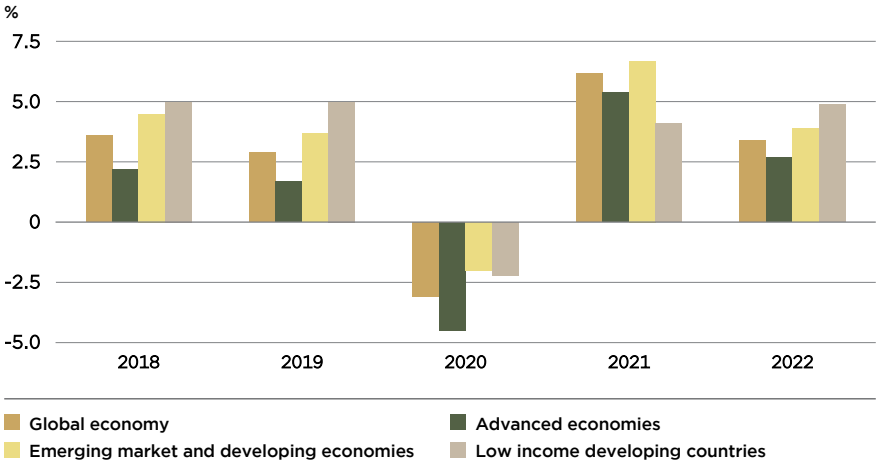
OPERATING ENVIRONMENT

GLOBAL ECONOMY

Global growth reached an estimated 3.4% in 2022, reducing from 6.2% in 2021. However this reduction has to be seen in the context of 2021 being a year of recovery from the pandemic. The growth in 2022 was somewhat less than previous forecasts due to the Russia-Ukraine war, resulting food and energy crises, global inflation, and resurgence of COVID-19 in China.

Major economies were affected by high inflation and resulting tight monetary policy, and heavy indebtedness all of which contributed to retard growth. The major growth engines of the world the U.S., Euro Area, and China all experienced economic retardation. Spillover effects into Emerging Market and Developing Economies (EMDES) economies have also been acute. The impact of tight policies is expected to curb inflation, but the impact may not be felt till 2024.

GROWTH BY CATEGORY 2018-2022



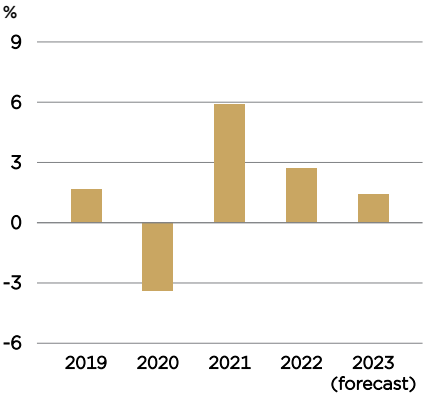
Growth in advanced economies has decelerated – in fact it is one of the highest decelerations in recent decades. Particularly in the second half of 2022 consumer purchasing power was eroded by high inflation and tight monetary policy. Activity in the housing sector was also weak. Russia's invasion of Ukraine hampered gas supply to the Euro area, driving energy prices and inflation. Energy supply chains to industry were also affected, resulting in uncertainty which hampered production.

Fiscal flexibility has been considerably constrained, and many countries are experiencing concerns over debt sustainability with global financial conditions making it more difficult to service debt. However many governments have introduced measures to cushion the effect of rising prices on households and firms, retarding fiscal consolidation.

The impact of the Russia-Ukraine war on growth in Europe has turned out to somewhat less than expected. This is partly attributable to Government support to economies. However, signals from the fourth quarter suggest that manufacturing and service sectors are contracting while consumer and business confidence have weakened.

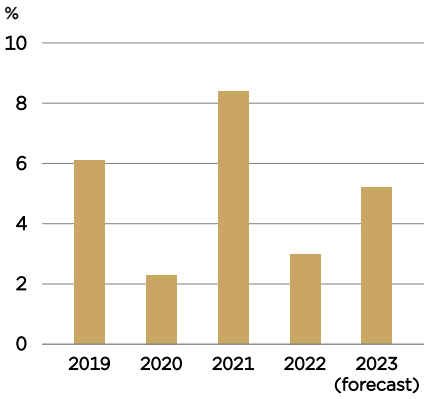
The U.S. economy grew by 2.7% in 2022, an estimate bolstered by growth in the last six months. This makes it likely that monetary policy makers could continue to raise interest rates for a period. Rising food prices and tight labour markets pushed inflation to levels not seen in recent times. Consumer spending remained strong in the fourth quarter while housing and manufacturing slipped. The demand for new hires is exceeding the supply of available workers, and unemployment has slipped to its lowest levels in half a century. There is a greater tendency for workers to switch jobs and there is also a trend towards early retirement.

UNITED STATES GROWTH RATES 2019-2023



Continued outbreaks of the pandemic, which caused mobility restrictions, have retarded growth in China, which achieved only 3.0% growth. There has also been the impact of droughts and dampening in the property sector. All these factors culminated in being a drag on consumption, food and energy production, and residential investment. Fiscal and monetary policy measures have only partially alleviated the issues. However, the Chinese economy is expected to grow by 5.2% in 2023, and contribute to a third of the global growth.

CHINA GROWTH RATES 2019-2023



Global growth is expected to slip to 2.9% in 2023, but recover to 3.1% in 2024. The dampening is anticipated mainly due to tight monetary policies imposed by Central Banks and the Russia-Ukraine war. It is mainly advanced economies that will be affected by the slowdown. In China growth is expected to pick up due to reduced inflation and recovery from the effects of the Ukraine war.

The forecasts for EMDE countries are mixed. The WEO January 2023 report holds out the prospects of rising growth rates in 2023 and 2024. However the World Bank January 2023 Global Economic Prospects Report paints a much less optimistic picture. According to this source, the outlook for EMDE countries, other than China, is largely poor, with their total debt being the highest for 50 years. The Russia-Ukraine was has also increased costs. Moreover, in these countries health. education, and nutrition are still reeling from the setbacks that originated from the COVID-19 pandemic. This leaves little room for fiscal flexibility. The projection for per capita income growth in EMDEs, other than China, for the period 2020-2024 is approximately the same as for developed countries. This indicates that the gap between the two cannot be expected to narrow.

It was also a turbulent year for financial markets, globally. Global stocks and bonds lost more than USD 30 Tn. in 2022 after inflation. Inflation, rising interest rates, and the war in Ukraine were the main causes. In New York, heavy selling on the last trading day of the year sent market indexes into a tailspin, with the S & P 500 and Nasdaq falling 19% and 33% respectively, during 2022. The market value of stocks traded across all exchanges suffered an erosion in value of USD 25 Tn. Bond markets have also encountered heavy selling.

THE SRI LANKAN ECONOMY

In the year under review Sri Lanka was beset by many crises: political turmoil, scarcity of foreign exchange, drawing down of foreign current reserves, spiraling inflation, and high interest rates. All these factors combined to result in making 2022 the worst year for the Sri Lankan economy since independence.

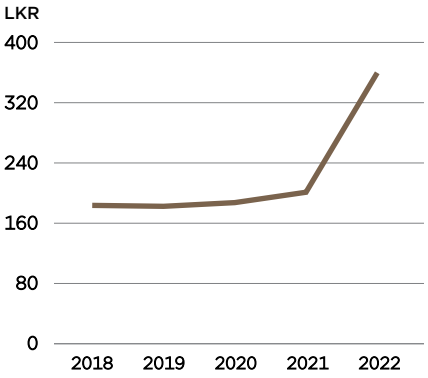
Sri Lanka's access to international markets had already been constrained with the credit downgrading in 2020. The country continued to service its external debt and finance imports using its own reserves and loans from the banking sector. As result official reserves slumped from USD 7.6 Bn. In 2019 to below USD 400 Mn. in June 2022. Net foreign assets in the banking system also fell to USD -5.9 Bn. in June. The scarcity of foreign exchange caused severe scarcities of essentials such as fuel, gas, pharmaceuticals, and industrial raw materials.

Remittances from overseas workers also went into a tailspin. These remittances have on average compensated for 80% of the trade deficit over the past two decades. The remittances, which had already declined since the COVID-19 pandemic, suffered a further decline after the Central Bank artificially pegged the Rupee at 200 per dollar in October 2021.This caused many Sri Lankan expatriates to resort to remitting money through unofficial channels, whereby they could obtain higher rates. From January-May 2022, remittances received were just USD 1.3 Bn. Which was less the half the figure for the corresponding period in 2021.

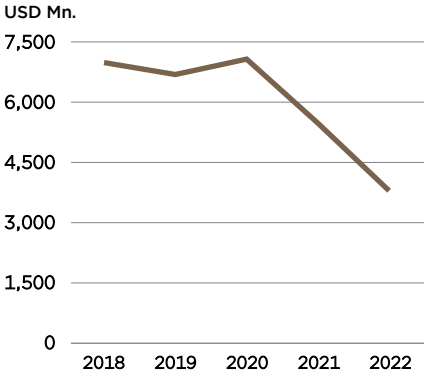
With the situation becoming unsustainable, the Rupee was sharply devalued to LKR 360 to the Dollar in May 2022.

OPERATING ENVIRONMENT

EXCHANGE RATE OF USD



REMITTANCES



Inflation reached unprecedented levels during the year; year-on-year inflation in August 2022 recording 64.3%. Many factors have fuelled this spiraling inflation, including the sharp depreciation of the Rupee against the USD, domestic and global supply side disruptions, and the delayed impact of relaxed monetary policies of the recent past. Moreover the impact of sharp reduction in tax rates in 2019 was also a contributory cause, not only by fuelling aggregate demand but also by necessitating financing the growing budgetary deficit. The impact of the ban on chemical fertilisers in 2021 caused food scarcities which also drove up prices and also resulted in severe shortages of foreign exchange.

Extremely high inflation and interest rates have caused tremendous hardship to the less affluent sections of the populations; many businesses are also in dire straits.

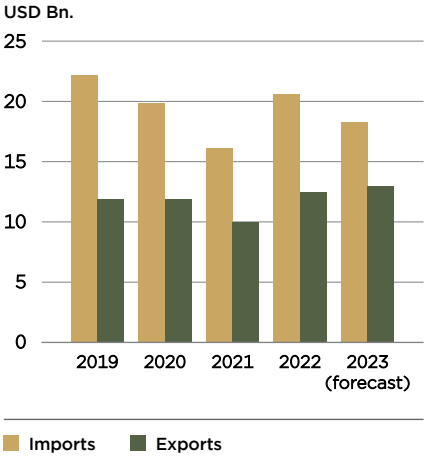
With escalating inflationary pressures, the Central Bank maintained a tight monetary policy throughout the year under review. The key policy interest rates, SDFR and SLFR were increased by 10 pps in total to 14.50% and 15.50% respectively by end October 2022. There has been some moderation of inflation rates in the period October-December 2022, which is reflected in Consumer Price Indices, which can be at least partly attributed to the measures taken. The monetary policy is expected to be relaxed in 2023, which should result in a softening of interest rates from the middle of the year.

Sri Lanka defaulted on its sovereign debt in April 2022. This resulted in Sri Lanka's Fitch rating (which had already been downgraded to CCC) being further downgraded to Restricted Default (RD). This closed off all avenues for foreign borrowings unless there is some easing of the crisis situation.

The economy contracted by 4.8% YoY in the first half of 2022 (compared with 9.3% growth in 1H2021), and is estimated to have contracted by 8 %-9.2% in the year. Around 25% of the population is below the poverty line, and this situation can be expected to be prolonged.

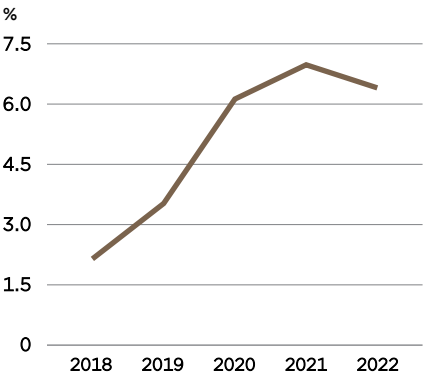
Headwinds on both the local and global scene contributed to the foreign exchange crisis. Expenditure on merchandise imports in 1Q2022 exceeded those for the corresponding quarter in 2021. This brought about an urgent need to restrict imports to essentials. As a result there was a fall in import value, whereas exports remained steady. Sri Lanka's total exports in 2022 exceeded USD 13 Bn. and were approximately 5% higher than previous highest figure in 2021. Imports on the other hand, reduced 11.4 YoY to USD 18.3 Bn.

IMPORTS AND EXPORTS



The growing economic hardships brought about political turmoil, in the form of popular protest, on an unprecedented scale. Government buildings, Including the President's official residence, were stormed by protestors. This culminated in the resignation of the incumbent President. The period of political uncertainty that followed in turn made formulation of a cohesive policy to address the crisis difficult.

INFLATION RATES



There is widespread agreement that the only practicable way of alleviating the present situation is to obtain an Extended Fund Facility (EFF) from the IMF, negotiations for which are under way. An IMF Mission in August 2022 reached a staff level agreement. This agreement is not binding and is subject to ratification by the IMF Board.

Some of the broad highlights of the agreement are:

- The EFF will be for USD 2.9 Bn.
- The objectives are to restore macro-economic stability and debt stability, while preserving financial stability and protecting from the vulnerability
- Debt relief from Sri Lanka's creditors and additional financing from multi-lateral partners will be required to ensure debt sustainability and close financial gaps.

An authorities programme has also been agreed to by the fund some of the key elements of which are;

- Supporting fiscal consolidation by tax reforms that will raise revenue
- Introducing cost recovery pricing for fuel and electricity to minimise fiscal losses from state-owned enterprises
- Raising social spending with better targeting to cushion impacts on poor and vulnerable
- Rebuilding foreign exchange reserves through a market determined and flexible exchange rate, supported by the policy package under the programme
- Ensuring financial stability by putting a healthy and adequately capitalised banking system in place.

SRI LANKAN BANKING SECTOR

With the daunting conditions in the economic and financial environments, the financial sector too is under severe stress. Low foreign exchange liquidity and high interest rates have their toll on the banking sector. Banks are facing higher bad loans and non-performing loans as the impacts of the crisis seep into virtually all sectors of the economy. Downgrading of the country rating severely constrained banks' access to foreign currency and counterparty transactions.

In the current milieu, banks are encountering, or can be expected to face, major headwinds in the form of contraction of economic output, prevailing high interest rates, and tax revisions. The major exposure to SOEs, particularly of the state banks, is another major concern. Despite slowing of credit to government from commercial banks, financing by Banks to SOEs increased by 52.9% YoY in June 2022. Nevertheless, loans to the Government and SOEs from private banks account for 33% of their total assets; losses on these loans are yet to be recognised. Private credit showed signs of picking up, showing an increase of 17.1% YoY in June 2022. To strike a positive note, it has to be said that, despite coming under severe stress, the banking system did succeed in maintaining acceptable levels of capital and impairment ratios.

There is an increasing trend in impaired loans, driven by the current macro-economic backdrop which has not been assuaged despite reliefs granted to the borrowers from banks. At September 2022, top tier banks had reported bad loan provisions over 70% in excess of that of a year before. This has been heavily driven by dollar denominated International Sovereign Bonds (ISBs) and Sri Lanka Development Bonds (SLDBs). Impairments for ISBs have been around 25-30% while for SLDBs it has been around 20%. The Central Bank has stated that the decline in asset quality of banks is demonstrated by the stage 3 loans to total loans ratio. As of end August 2022, stage 3 loans recorded an increase of LKR 475.1 Bn. (56.9%), reaching LKR 1.3 Tn. Furthermore Stage 3 loans to total loans increased to 10.6% by end August 2022 from 7.1% at the end of 2021. Extension of debt moratoriums for companies and individuals also led to increased impairments. Rising interest rates and restrictions in imports effectively squeezed any growth in advances.

The fuel crisis and power interruptions affected industrial output and commercial operations of banks' customers. Delays in payment to certain key industries such as construction, renewable energy, and fertiliser have affected their cash flows and impaired their loan repayment capacity. The macro-economic conditions have affected the retail segment as well; with the inflation and the resulting rise in consumer prices customers are having to divert their incomes to food and other essentials leaving little space for loan repayments. Increased provisions for loan impairments led to reduced profitability. This in turn resulted in dampened investor confidence, which hinders raising capital from the local or international markets. Declining profits also led to lower retained profit, impacting capital adequacy ratios, constraining the banks' capability to grant new loans. The reduction of purchasing power of consumers will also prompt them to keep their financial assets in liquid form, rather invest in savings or time deposits.

Banks are also beset with by higher operating coats driven by inflation, Rupee depreciation, and increases in impairments. This has naturally resulted in narrowed profit margins. There has been a disconcerting incidence of migration among professionals and other skilled staff, particularly among the millennial generation. If the trend continues banks could be faced with severe problems of human resources in the years ahead.

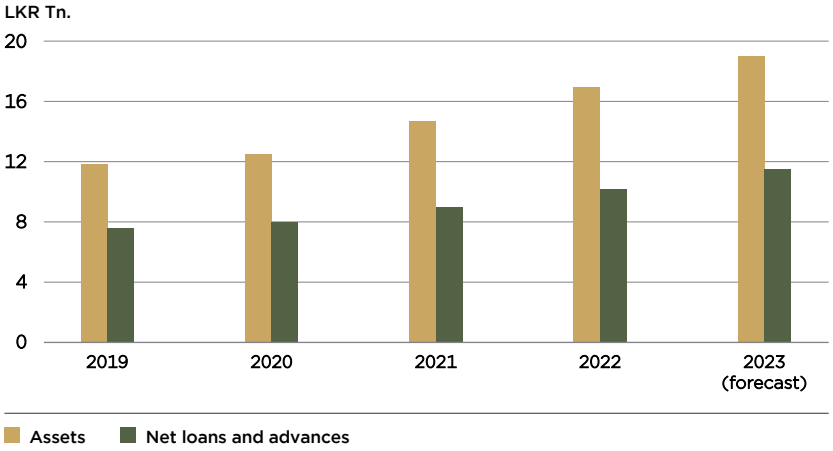
Key indicators of the banking sector

	2018	2019	2020	2021	2022	YoY change 2022 (%)
Assets and Liabilities (LKR Bn.)						
Assets	11,794	12,523	14,666	16,924	19,400	14.6
Net loans and advances	7,580	7,961	8,970	10,180	11,300	11.0
Deposits	8,492	9,162	11,141	12,671	15,300	20.7
Borrowings	1,763	1,679	1,692	2,181	1,900	-12.9
Profit before tax	195	172	190	259	192.2	-25.8
Profit after tax	126	111	136	198	151.7	-23.4
Capital adequacy (%)						
Core capital (tier 1 capital) adequacy ratio	13.1	13.0	13.0	13.2	12.3	
Total capital adequacy ratio	16.2	16.5	16.5	16.5	18.3	
Asset quality (%)						
Gross non-performing advances ratio	3.4	4.7	4.9	4.5	N/A	
Net non-performing advances ratio	2.0	2.8	2.4	1.7	N/A	
Stage 3 loans to total loans	-	-	-	7.6	11.3	
Profitability (%)						
Return on assets (ROA) before tax	1.8	1.4	1.4	1.6	1.0	
ROA after tax	1.1	0.9	1.0	1.2	0.8	
Return on equity (ROE)	13.2	10.3	11.4	14.5	10.5	
Interest margin	3.6	3.6	3.1	3.4	4.0	
Liquidity Indicators						
Credit to deposit ratio	90.6	88.7	82.6	82.7	73.9	
Liquid assets ratio	27.6	31.0	37.3	33.8	29.9	

Market interest rates

	December 2018	December 2019	December 2020	September 2021	December 2021	September 2022	December 2022
SDFR	8.0	7.0	4.5	5.0	5.0	14.5	14.5
SLFR	9.0	8.0	5.5	6.0	6.0	15.5	15.5
AWDR	8.8	8.2	5.8	4.8	4.9	11.6	14.1
AWFDR	10.9	10.1	7.1	5.6	5.9	15.4	18.5
AWLR	14.4	13.6	10.3	9.4	9.9	16.9	18.7

BANKING INDUSTRY ASSETS AND NET LOANS AND ADVANCES



People's Bank performance compared with banking sector

	2022			2021		
	Banking sector	People's Bank	People's Bank share (%)	Banking sector	People's Bank	People's Bank share (%)
Assets (LKR Bn.)	19,400	2,972	15.3	16,924	2,648	15.6
Deposits (LKR Bn.)	15,300	2,372	15.5	12,671	2,072	16.3
Profit before tax (LKR Bn.)	192.2	21.3	11.1	285.7	30.4	10.6
Profit after tax (LKR Bn.)	151.7	17.2	11.3	198.4	23.7	12.0
Tier 1 capital adequacy ratio (%)	12.3	11.9	-	13.2	12.6	-
Total capital adequacy ratio (%)	15.3	16.3	-	16.5	17.8	-
ROA before tax (%)	1.0	0.8	-	1.6	1.2	-
Interest margin (%)	4.0	2.7	-	3.4	3.4	-

LOOKING TO THE FUTURE

Looking at the overall economy, there are some grounds for optimism considering the proposed IMF-EFF programme, the progress on the negotiations so far, and the policy reforms implemented. There are reasonable grounds to expect a turnaround in the economy in the latter part of 2023. This however hinges on many aspects including those on a political front. If there is a clear path of direction the country is likely to realise sustainable progress in the medium-term. However there are serious concerns on the possibility of domestic debt restructuring. There are no definite signs of this yet, but the possibility hangs like a Sword of Damocles over the banking sector.

Regarding the banking sector, the main challenges facing the banks continue to be foreign currency liquidity, capital adequacy, and maintaining asset quality. Liquidity, both in local and foreign currency will have to be monitored extremely carefully. The sector should do its utmost to ensure that commitments to multi-lateral agencies and LCs entered into are not defaulted. Any foreign currency commitments should continue to be prioritised for essential imposts such as fuel and pharmaceuticals, and essential food items. Portfolio quality will have to be managed with sensitivity to different customer segments and their position. In particular the SME sector will have to be dealt with empathy; else many enterprises in the sector may not survive. The Banks should perform multi-scenario analyses on the non-performing ratio and the differing implications on their capital. Thereby they could ascertain the level of risk tolerance leading to levels of NPA.

STAKEHOLDER ENGAGEMENT

At People's Bank, stakeholder involvement is crucial to ensure that our strategic planning decisions are ethical, sustainable, and fair. Our stakeholders are the people, groups and organisations that affect or are affected by our business activities. In order to maintain a continuous dialogue between these entities and ourselves we offer our stakeholders numerous opportunities to interact with us throughout the year. These exchanges influence the course of our strategies, keeping them in alignment with stakeholder requirements and expectations while we develop competitive, sustainable value for them in the short, medium-, and long-term.

STAKEHOLDER ENGAGEMENT PROCESS

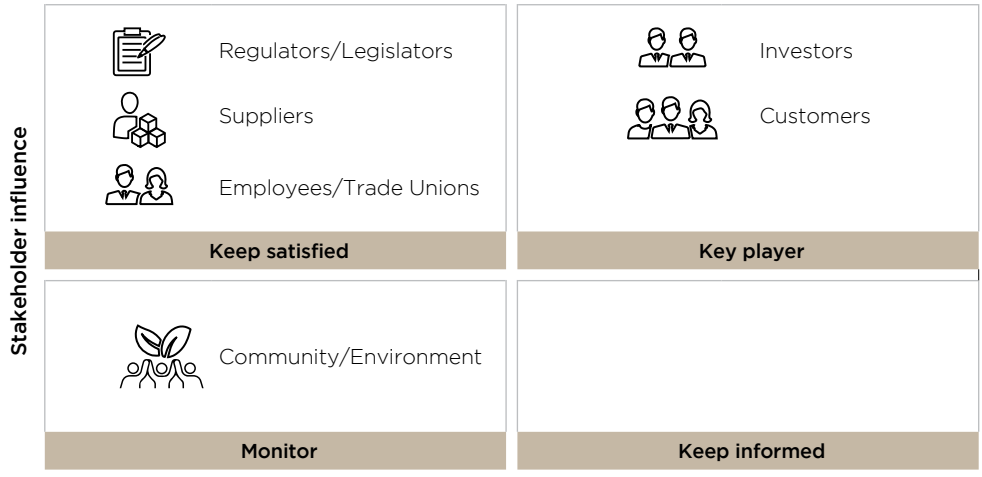
Identifying our Stakeholders

The Bank's major stakeholders are identified based on their level of engagement, impact on our operations, and the decision-making process. Their frequent inputs help us to better fulfil our role as a responsible corporate citizen.

	Investors	Customers	Employees/ Trade Unions	Regulators/ Legislators	Suppliers	Community/ Environment
Who they are	The Government and corporative societies	• Public sector clients • Corporate and institutional banking clients • Retail and SME clients • Brokers and intermediaries	All full-time and part-time ecosystems	• Governments and regulators • Other non-governmental organisations	• Suppliers • Business partners	Local communities and 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.	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.

Prioritising our Stakeholders

Stakeholders are ranked according to the level of influence they have on the operations of the Bank. This would also determine the adjustments we need to make in our ongoing interactions with them.



Engaging with our stakeholders

The table below describes the way in which we engage with them among others.

	Investors		Customers		Employees/Trade Unions	
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 cybersecurity • Customer communication		• 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 collaborate with our investors to provide strong returns and long-term sustainable value, while also keeping them promptly and openly informed of our successes and problems.		We deliver the most up-to-date quick and convenient digital banking tools and apps. They are innovatively designed to enhance our customers' user experience		We offer a secure and stimulating work environment that supports both personal and career development through rewards and recognition, advancement, fair compensation, and training opportunities	

Value delivered to our stakeholders

Investors	Customers	Employees/Trade Unions	Regulators/Legislators
Return on equity 12.2% Earnings per share LKR 17,192 Special Levy and dividends LKR 661 Mn.	Total number of customers: Over 14.7 million. 682,300 New customers onboarded People's Wave app has scored a monthly average of 35,000 downloads and 411 billion transactions An average of 107,000 Facebook visits per month.	Employee engagement score 69.6% LKR 26.6 Bn. spent on staff benefits Percentage of grievances redressed 50% Retention 97.6% Promotions 33	Contribution to GoSL LKR 13.9 Bn. paid as taxes

STAKEHOLDER ENGAGEMENT

Regulators/Legislators	Suppliers	Community/Environment
• 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

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	Ongoing	Social media

We keep the lines of communication open with government through continuous dialogue, meeting regulatory requirements and timely submission of relevant information.	We establish trustworthy connections in order to secure dependable and sustainable supply chains	We support social economic development, sustainability and environmental conservation within the community.

Suppliers	Community/Environment
Payments to suppliers LKR 15.9 Bn. Number of suppliers from local communities 258	Investment in CSR LKR 38.2 Mn.

MATERIALITY

Material topics are those issues that concern our various stakeholders in their interactions with the Bank, and consequently have an impact on the Bank's financial performance, position, our ability to operate in society, and our capacity to create long-, medium-, and short-term value for those stakeholders. All of our stakeholder groups engage with us continuously throughout the year, and we use the feedback and suggestions they offer to identify the key issues that are most important to them – issues that are "material".

We conduct a materiality assessment annually to determine the content of our review. The degree of materiality or importance of a topic is assessed by its significance and relevance to the Bank or our stakeholder. Significance is evaluated by the probability of occurrence of a topic and the magnitude of its impact. In this Report, we have also included a long-term forecast of the degree of materiality.

CREATING SHARED VALUE

Based on the findings of our materiality analysis, we formulate our strategies. All significant issues are handled by the appropriate Business Unit Heads in accordance with our strategic priorities and responsibilities. Resources are allocated according to the level of risk and opportunities relevant to each topic.

The material topics, together with our strategic objectives, help us to formulate Key Result Indicators (KRIs). Our dedication to achieving the strategic objectives is demonstrated by how we evaluate our performance against KRIs.

MATERIALITY ASSESSMENT

We follow a clear material assessment process which helps us identify the important material topics that affect the Bank and its stakeholders. This helps us to formulate the required responses, and plan strategies to navigate the risks and opportunities that lie ahead in the short, medium and long-term.

Materiality assessment process

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

We are conscious of the fact that materiality and the related priorities are constantly evolving. We therefore have carried out a forward-looking exercise to project the developments in the materiality profile in the medium- to long term.

Developments during the year

The economic and political turbulence of the year has brought many serious issues affecting both the Bank and its stakeholders. These include: currency devaluation, shortage of foreign exchange, high inflation, high interest rates, and impact of the crisis on customers. This gamut of issues has been categorised under macroeconomic factors. In the circumstances, the Bank has had to optimise use of scarce resources such as foreign exchange.

MATERIALITY

The material topics selected for inclusion in the report are given in the table below:

No.	Material topic	GRI Standard number	Reason for materiality	Management approach GRI 3-3	Reference to the capital sections
1.	Financial performance	GRI 201: Economic Performance GRI 207: Tax	A positive financial outcome reinforces the Bank's capacity for stability, resiliency, and growth while enhancing brand equity	Increase revenue by leveraging market opportunities and effective cost management. Manage risks strategically, reinforce capital position and strengthen the balance sheet	Head of Finance's Review (page 68 to 71), Business Line Review (page 72 to 81), Risk Management Report (page 138 to page 167)
2.	Digital leadership	GRI 417: Marketing and Labelling	Retain the competitive edge, providing exceptional customer service that boosts brand equity and positions the Bank well in the financial marketplace	Continuous investment in digitalisation to maintain our position as the most digitalised Bank, delivering value to our economy and stakeholders	Manufactured Capital (page 82 to 86), Intellectual Capital (page 87 to 94), Customer Capital (page 108 to 114)
3.	Customer experience	GRI 417: Marketing and Labelling GRI 418: Customer Privacy	Customer experience is vital to gain market share and increase the sustainability of the Bank	Offer customers a compelling value proposition. While this includes digitalisation, the new physical look and feel of the branches has contributed greatly to enhancing the Bank's image	Manufactured Capital (page 82 to 86), Intellectual Capital (page 87 to 94), Customer Capital (page 108 to 114)
4.	Operational efficiency	GRI 402: Labour/Management Relations	Essential to reduce costs and improve benefits for all stakeholders	Enhance the efficiency of all key operations of the Bank mainly through automation to increase profitability	Manufactured Capital (page 82 to 86), Intellectual Capital (page 87 to 94), Customer Capital (page 108 to 114), Business Partner Capital (page 115 to 119), Human Capital (page 95 to 107), Natural Capital (page 129 to 136)
5.	Employee productivity	GRI 401 : Employment	High employee productivity is crucial to advancing the Bank's operations and strategic goals	Investment in digitalisation is the key to improving employee productivity	Human Capital (page 95 to 107)
6.	Talent management	GRI 402: Labour/ Management Relations GRI 404: Training and Education GRI 405: Diversity and Equal Opportunity GRI 406: Non-discrimination	Identify and retain the skills and competencies needed and plan for future ones	Build staff morale and promote employee retention. Succession planning is a vital component	Human Capital (page 95 to 107)

MATERIALITY

No.	Material topic	GRI Standard number	Reason for materiality	Management approach GRI 3-3	Reference to the capital sections
7.	Training and development	GRI 404: Training and Education	Develop a high performance team of employees to implement the strategic plan of the Bank and deliver an outstanding stakeholder experience	Invest in training and development, and the infrastructure required, to develop industry-leading capabilities and help our employees reach their full potential	Human Capital (page 95 to 107)
8.	Health and safety	GRI 403: Occupational Health and Safety GRI 416: Customer Health and Safety	Ensure a safe and healthy work environment that is secure, motivating, and engaging	Ensure health and safety standards at work and put in place proactive systems and procedures to cope with any ongoing health issues and possible future epidemics	Human Capital (page 95 to 107), Manufactured Capital (page 82 to 86)
9.	Compliance	GRI 417: Marketing and Labelling GRI 418: Customer Privacy GRI 205: Anti-corruption GRI 206: Anti-competitive Behaviour	Elevate the Bank's reputation and strengthen brand equity	Ensure full compliance with all applicable laws and regulations by maintaining strong governance and oversight framework	Human Capital (page 95 to 107) Intellectual Capital (page 87 to 94)
10.	Integrity, transparency, and accountability	GRI 205: Anti-corruption GRI 206: Anti-competitive Behaviour	Contribute towards an ethical society and confidence in the banking system among the general public	Develop a rigid, moral, law-abiding culture, and compliance culture within the Bank to ensure employees maintain the highest standards	Human Capital (page 95 to 107), Risk and Governance (page 138 to 204), Head of Finance's Review (page 68 to 71), Intellectual Capital (page 87 to 94)
11.	Need to reskill employees	GRI 404: Training and education	Bank being unable to meet the Gen Z customers due to the reason that the staff was not being reskilled to keep abreast with the latest technologies.	Proper reskilling of staff and encourage them to keep abreast with the latest technologies and assist customers.	Human Capital (page 95 to 107)
12.	Responsible lending		Minimise the risk of NPLs which is high as many customers are seriously affected by the prevailing economic environment	While there is a need to promote financial inclusion we have to exercise caution in lending, concentrating on sectors that are less affected	Customer Capital (page 108 to 114)
13.	Customer access		Promote financial inclusion by widening customer access	Reach out to segments of the population that are still not banking; identify the reasons, and take suitable steps to draw them in	Customer Capital (page 108 to 114), Manufactured Capital (page 82 to 86) Community Capital (page 124 to 128)

MATERIALITY

No.	Material topic	GRI Standard number	Reason for materiality	Management approach GRI 3-3	Reference to the capital sections
14.	Brand equity		Increase market share and achieve a competitive edge which can be reinforced by strengthening the brand reputation	Increase brand equity through leadership in digitalisation, strong governance, innovation, customer service, customer relationship management and market dominance	Intellectual Capital (page 87 to 94)
15.	Supplier value creation	GRI 204: Procurement Practices GRI 308: Supplier Environmental Assessment GRI 414: Supplier Social Assessment	Minimise the risk of business disruptions due to a breakdown in the supply chain	Strengthen long-term, mutually beneficial business partner relationships and create shared value	Business Partner Capital (page 115 to 119)
16.	Risk and governance		Enhance the integrity, trust, and stability of the Bank	Adopt a proactive approach to risk management following sound governance practices	Risk Management Report (page 138 to 167), Corporate Governance Report (page 137 to 204), Intellectual Capital (page 87 to 94), Head of Finance's Review (page 68 to 71)
17.	Cybersecurity threats	GRI 418: Customer Privacy	The Bank in common with many other institutions, is vulnerable to cyberattack which pose threats to the security, confidentiality and integrity of data which needs to be addressed	Improve IT security systems and capabilities to cope with increasing threats	Risk Management Report (page 138 to 167), Intellectual Capital (page 87 to 94) Manufactured Capital (page 82 to 86)
18.	Socio-economic impacts	GRI 202: Market Presence GRI 203: Indirect Economic Impacts GRI 413: Local Communities	Align with national priority issues	Reduce social disparities by assisting socioeconomic development of local communities	Community Capital (page 124 to 128)
19.	Environmental impact	GRI 302: Energy GRI 303: Water and Effluents GRI 305: Emissions	Contribute towards a sustainable green environment through sustainable business practices	Reduce our carbon footprint by investment in green infrastructure and renewable energy sources, and considering environmental factors when making financing and investment decisions	Natural Capital (page 129 to 136)
20.	Macroeconomic factors		The unprecedented economic and political turbulence during the year brought a number of issues seriously affecting both the Bank and its stakeholders in its wake, the impact of which the Bank has to strive to minimise.	Adopt flexible strategies and operational plans to cope with the situation. Where there are resource limitations caused by the crisis, the available resources have to be utilised to give optimum benefit to priority sectors.	All capitals, but especially Head of Finance's Review (page 68 to 71), Customer Capital (page 108 to 114), Investor Capital (page 120 to 123).

MATERIALITY

The materiality analysis has been carried out under two time frames; short-, and medium- to long term. Under the respective time frame, each material topic is given a ranking of high, medium, or low according to its importance to stakeholders and its importance to the Bank.

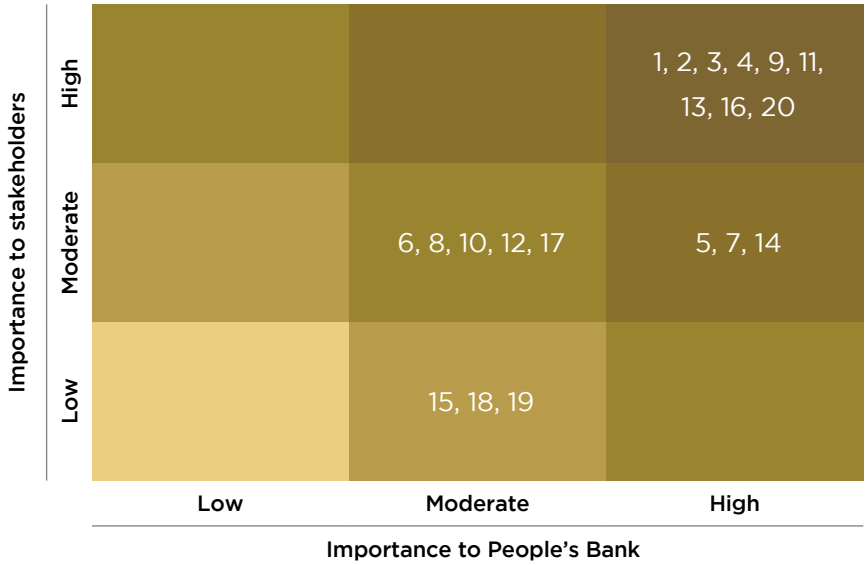
Importance:

High: Considered a priority for action

Moderate: Adequate action is required to control potential impacts

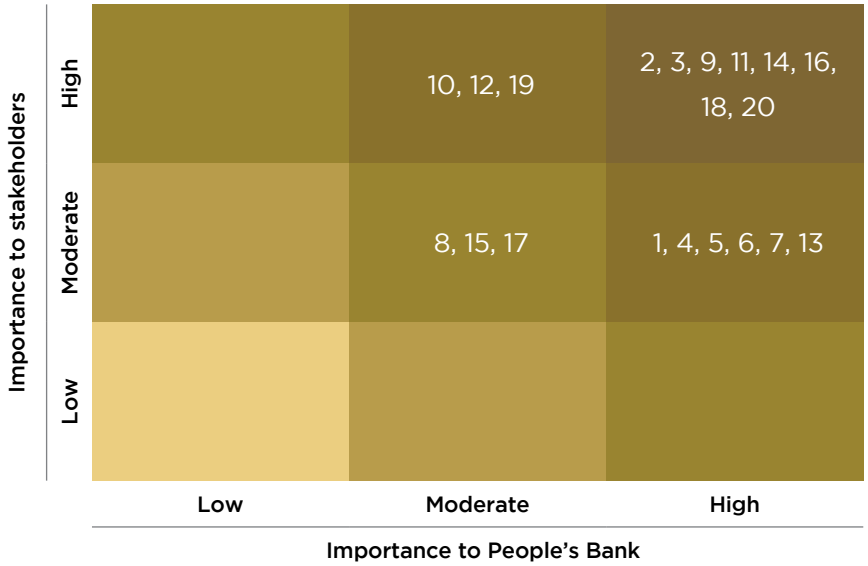
Low: Adequate measures are already in place or the impact is beyond our control

SHORT-TERM: ONE YEAR PERIOD



LONG–TERM MATRIX: 5-10 YEAR PERIOD

The long-term matrix has been developed based on a projection of the evolution of the risk profile,



SOME OF THE FORECASTED DEVELOPMENTS

- While how far the present macro-economic issues will persist into the future cannot be foreseen, there is a strong possibility that at least some of them will continue to be important in the long term.
- ESG issues will be more important to stakeholders in the future, as global experience has shown; while Bank will prioritise financial performance, stakeholders (including but beyond shareholders) may value ESG impact even at the cost of Bank's absolute performance.
- Intangible assets, such as software and innovation, can become more important than tangible assets in the future. This can be expected to impact digital leadership and brand equity.
- Talent management could become more important for the Bank in the future considering emigration/brain drain which is becoming acute in the current economic context, and the human resources skills needed to cope with increasing demands.
- Socio-economic impacts could be expected to increase in importance for both sides due to increasing public concern with environmentalism, especially in the context of global warming, and social issues.
- Employee productivity while still being very important to the Bank, could be less important to stakeholders.
- Stakeholders could be expected to grow more concerned with transparency and accountability, especially corruption issues.
- Supplier value creation would be of increased importance to suppliers, in the light of the need to build lasting relationships in the future. The focus could be on developing a comprehensive supply chain ecosystem and the Bank could depend on suppliers more for digital innovation, rather than develop all capabilities in-house.

OUR STRATEGY

2022 was a year of unexpected turbulence with the first quarter bringing a series of challenges from low liquidity in foreign and local currency, steep increases in inflation and interest rates, to political strife and economic distress.

The Strategic Plan for 2022-2024 was developed by the People's Bank with the consultation of an external consultancy firm. All the Corporate and Executive management members and other team members including selected Branch Managers covering all regions participated in the process of developing the plan.

The strategy addresses the fundamental market trends detailed below:

01 **We need to constantly improve service levels**

Customers have more knowledge and options; they can demand more from a bank or business and greatly value convenience

02 **We need to become customer-centric**

Excellent customer service is not the same as customer-centricity. Across industries there is a shift from being product-centric to customer-centric, enabled by sophisticated data analytics

03 **We need to be future-ready**

The evolution of technology is an underlying factor and a key enabler of both the above trends. Technology is the single biggest disruptor that is impacting how financial services can be conceptualised and delivered, and it is constantly changing – we need to be agile and adapt quickly

STRATEGY EVOLUTION

1 Vision and BHAG

Vision: Inspiring the Nation towards Transformational Growth

BHAG: To be the most customer sought after bank with the industry best employee satisfaction level.

Our BHAG is measured as:

- Being the primary bank for 35% of our customers
- Obtaining highest net promoter score (NPS) among leading local competitors
- Being the top bank in the country for export and inward remittances
- Winning the Gold Award by Great Place to Work Sri Lanka (Extra Large Enterprise category)

3 Key Strategic Objectives

- Driving Excellence
- Building Customer-Centricity
- Being Future Ready

4 Enabling Mindsets

- Lean-Agile
- Data-driven
- Growth

8 Modules

- Corporate
- Treasury and International Banking
- Enterprise
- Retail
- IT
- HR
- Finance
- Bank-wide

20+ Initiatives

Mapped by module as well as strategic objective

50+ Activities

150+ Work streams

INITIATIVES UNDER STRATEGIC PILLARS

DRIVING EXCELLENCE

1. Operational excellence

- Business development growth
- Operational process improvements
- Digital transformation of operations
- Improvements in TAT
- Re-alignment of Branch focus
- Improved customer satisfaction
- Time utilisation of Branches
- Increase in customer wallet share and retention
- PBT of each division/ product and service line

2. Portfolio quality

- Asset quality improvement
- Reduction in NPA

3. Performance-driven culture

- Employee engagement
- Revenue/cost per employee
- Employee upskilling
- Meaningful retention and contribution to the Bank
- External vs. internal hires

BUILDING CUSTOMER CENTRICITY

1. Customer service improvements

- Growth of C1/C2 customers and retention of C3 - C5 Customers (Retail)
- Acquire/re-engage high-potential lapsed customers (Corporate/ SMEs)
- NII per customer growth
- Customer issues resolution TAT improvements
- Dealer/distributer finance revenue/leads
- Growth in export income

2. Better targeting and value propositions

- High-priority sector growth
- Treasury volume growth
- Foreign based customer growth
- Average wallet size of customers
- Number of customised propositions offered
- Improved customer satisfaction
- Export customer growth
- Non-traditional export customer growth
- Credit card growth – NII, volume and average limit

BEING FUTURE-READY

1. Getting ahead of disruption

- Number of strategic partners
- Foreign account growth
- Overseas branch expansion
- Growth in remittance value/ volume
- Network of foreign investors
- FDIs channeled through the Bank
- Develop an ecosystem – identify and map industries and all touch points

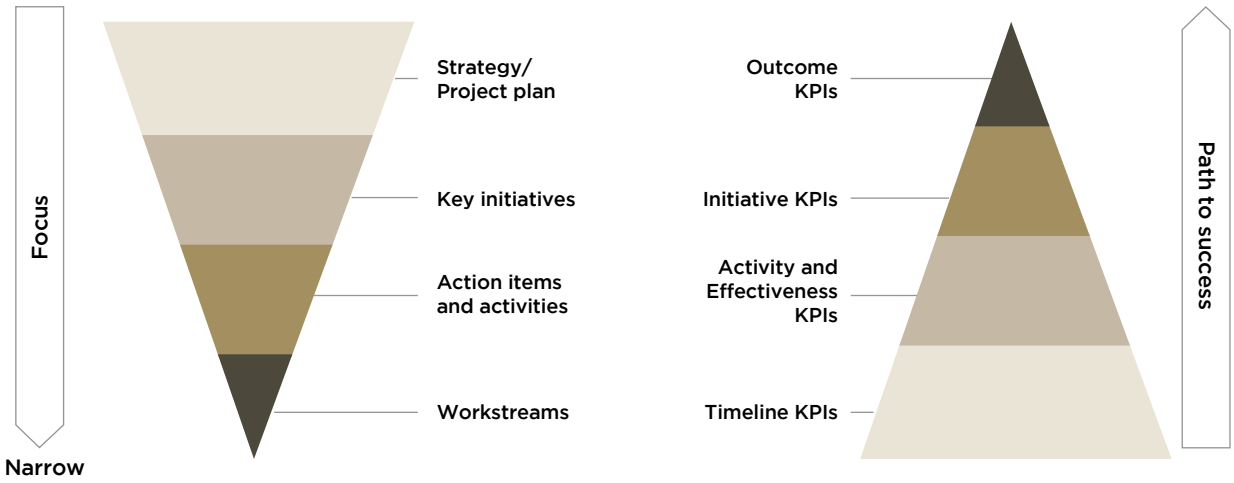
2. Building growth mindset-oriented team

- Implementation of the succession planning strategy
- Organisation-wide initiatives managed by HR
- Number of inter-department initiatives
- Number of employees "graduating" from the learning academy
- Transformational/dynamic training modules

The Strategic Plan consists of 26 strategic initiatives for the main Business Units, and six more for the supporting units, encompassing a total of 59 Board oversight Key Performance Indicators (KPIs) that are quantifiable and measurable. While the strategic initiatives run for the full period of the strategic plan, there are steps with time frames under each initiative. These results are monitored through regular reviews conducted throughout the year.

OPERATIONALISATION OF THE STRATEGY

Funnelled approach to cascading with a range of SMART KPIs resulting in a robust methodology for strategy execution.



REVIEW MECHANISM

There is a stringent review process within the Bank to ensure that the strategic initiatives are implemented as per the plan. We conduct a monthly review meeting headed by the CEO/ General Manager, and a quarterly review meeting by the Board Strategic Plan Review Committee (BSPRC) headed by the Chairman. Performance against the KPIs is carefully evaluated at these meetings, and corrective measures are recommended where necessary.

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. Export sector specific SME hubs
2. Targeted sales & products for non-traditional export sectors
3. Partnership Strategy for Enterprise Banking
4. Differentiating schematic from non-schematic-SME
5. Engage with a larger segment of micro, small and medium-sized customers to facilitate credit facilities but also to create a business-conducive environment
6. Ensure the credit facilities are easily deliverable on the need basis of MSMEs
7. 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
8. I. Introduce new loan products in line with the above
   II. Allow new MSMEs concessionary rates and terms.
   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. Business counselling
   VIII. Set up a desk for women and youth entrepreneurship development to address lack of financial literacy and support business planning across both segments

IX. Nurture entrepreneurship in young graduates through an incubation system developed by the Bank

X. Direct entrepreneurs to support agencies such as Industrial Development Board, CISIR, SLTDA, SLIM etc.

XI. Develop linkages with large corporates for supply chains and business improvements

XII. Appoint 24 Development Officers/ Field Officers to cover the 24 regions to grow MF/DF portfolio

XIII. Liaise with Smallholder Agri Business Partnership Programme (SAPP) to offer facilities to farmers

XIV. Establish a Credit Revival Unit to rehabilitate sick projects

9. Introduce a sustainable financing policy for the Bank

10. Conduct entrepreneurship development sessions in view to enhance financial inclusiveness of MSME customers with the collaboration of the International Finance Corporation (IFC)

11. Arrange a special trade fairs to promote products of existing MSME customers

12. Liaise with coconut cultivation board to grant "*Kapruka Ayojana* Loans" with new improvements

13. Launch of special interest concessionary rate loan scheme for the development of Tea Small Holders through a credit line funded by the ADB

14. In view to develop the entrepreneurship skills of women, implemented a special interest concessionary loan scheme along with a non-repayable grant (10%-25%) through ADB funded credit line

15. Introduced a new "women entrepreneur development policy" to empower women entrepreneurs

16. Participation to the "*Helaviru*" digital platform introduced by the SLT as financial service provider

17. Introduced and implemented the new concept of "One village one product" in all 24 regions

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 rates offered by the Bank and provide benefits to saving products, attracting customers by enhancing the quality of customer service, providing additional benefits etc.
2. 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.
3. 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.
4. Increase the demand deposit base (current account deposits) of the Bank as a highest income generating source through introducing various benefits to current account holders.
5. To increase deposit base of the Bank:
   a. Experiment alternative channels
   b. Strengthen daily collection process in the branch network and introduce mechanism to monitor the daily collection regularly
   c. Implementing strategies to increase demand deposits of the Bank
   d. Re-launch deposit products

3. Pawning

1. Extended working hours where there is potential to grow Pawning market share.
2. Continuous marketing strategies to promote Pawning within respective geographical area.
3. Conducting attitude development programme for pawning staff.
4. Re-arrange Pawning lobby by ensuring privacy of the customer.
5. Educate customers to utilise pawning discount rate which offer to certain savings products.

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.
7. Introducing mobile POS and soft POS machines
8. Increasing fee based income through credit cards
9. Tapping of untapped customer base, identifying their requirements through a BI tool.

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.
8. Introducing Lean concept for smoothening of processes by eliminating bottle necks in the recovery processes.
9. Expediting recovery through Debt Recovery Module.
10. Continuous trainings and awareness programs for all staff members.
11. Special monitoring of top 25 customers at each division and sectors.
12. Monitoring of financial contribution of all CRO (Customer Relationship Officers) by providing specific targets and KPIs.
13. Conducting recovery camps

6. Management of Expenses

1. Cost reduction measures on expenses
2. Introduce structural changes for process improvement and cost leadership.
3. Resource optimisation and harnessing maximum benefits from expenses borne by the Bank
4. Drive further bank-wide cost saving programs

7. New Channels

1. Promote special loans and card schemes among university students as a lucrative future customer segment of young professionals.
2. Capitalising digital channels.

8. New Product Development

1. Customised and market based innovative deposit products
2. Market driven asset products

OUR VALUE CREATION MODEL AND CAPITAL BALANCES

Inputs as at 31 December 2021

FINANCIAL CAPITAL

NII LKR 82.5 Bn.
ROE 19.9%
Taxes Paid LKR 16.3 Bn.
Fee Income LKR 8.3 Bn.
ROA 1.2%
Capital adequacy ratio 17.8%

MANUFACTURED CAPITAL

Head office building: percentage completion 3.0%
Cost incurred LKR 1,447.6 Mn.
Cost of branch renovation LKR 189.6 Mn.

INTELLECTUAL CAPITAL

Brand equity index 3.8
Fitch Lanka Credit Rating AA-(lka)
Customer Satisfaction 91%

HUMAN CAPITAL

Total staff 7,568
Staff retention 98.2%
18,813 hours of digital training
4,637 female employees
Number of promotions 99

CUSTOMER CAPITAL

Number of customers: Close to 14.5 million
Over 70% of transactions conducted digitally
Number of customer touch points 2,326
New customers onboard close to 510,000

BUSINESS PARTNER CAPITAL

Number of suppliers 258
Total value of purchases LKR 12.3 Bn.
Number of correspondent banks 42
Number of Vostro agents 78

INVESTOR CAPITAL

Equity Capital LKR 136.1 Bn.
ROE 19.9%
Earnings per share LKR 23,720

COMMUNITY CAPITAL

Number of Community projects 12
Expenditure on Community Projects LKR 12.7 Mn.

NATURAL CAPITAL

Branches using solar power 20
Number of accounts opened digitally 1.7 million

ACTIVITIES

BUSINESS UNITS

Overseas Banking

Retail Banking

Corporate Banking

Financial Intermediation

Acting as an intermediary between various stakeholders

International Banking

Enterprise Banking

Treasury

SUPPORT SERVICES

Human Resources

Information Technology

Procurement

Administration

Marketing and Communications

Risk Management and Compliance

Strategic Planning

Maturity transformation

Using short-term funds to finance long-term assets

Capital Management

Financial Management

Outputs as at 31 December 2022

FINANCIAL CAPITAL

NII LKR 75.8 Bn.
ROE 12.2%
Taxes Paid LKR 13.9 Bn.
Fee Income LKR 16.4 Bn.
ROA 0.8%
Capital adequacy ratio 16.3%

MANUFACTURED CAPITAL

Head office building: percentage completion 21.3%
Cost incurred LKR 2,204.2 Mn.
Cost of branch renovation LKR 211.3 Mn.

INTELLECTUAL CAPITAL

Brand equity index 4.0
Fitch Lanka Credit Rating A(lka)
Customer Satisfaction Over 90%

HUMAN CAPITAL

Total staff 7,377
Staff retention 97.6%
40,970 hours of digital training
4,530 female employees
Number of promotions 33

CUSTOMER CAPITAL

Number of customers Over 14.7 million
Over 73% of transactions conducted digitally
Number of customer touch points 2,301
New customers onboard 682,300

BUSINESS PARTNER CAPITAL

Number of suppliers 258
Total value of purchases LKR 15.9 Bn.
Number of correspondent banks 43
Number of Vostro agents 82

INVESTOR CAPITAL

Equity Capital LKR 145.3 Bn.
ROE 12.2%
Earnings per share LKR 17,192

COMMUNITY CAPITAL

Number of Community projects 44
Expenditure on Community Projects LKR 38.2 Mn.

NATURAL CAPITAL

Branches using solar power 20
Number of accounts opened digitally 2.7 million

COMMITMENT TO SUSTAINABILITY

People's Bank is committed to sustainable business practices and "giving back" to the communities in which it operates. The Bank invests a considerable sum of money each year in corporate sustainability, and anticipates using this investment in an efficient manner. The Bank's Corporate Sustainability Framework (CSF) guides the decision-makers in formulating corporate sustainability projects according to the established framework.

People's Bank employees are among the important stakeholders, responsible for carrying out and overseeing the policy initiatives. The Board of Directors is responsible for developing the CSF, while Corporate and Executive Management are in charge of execution and fund allocation in accordance with policy guidelines.

While fulfilling the objectives of the policy the Bank aims to satisfy the needs of stakeholders in the areas that are material to them.

STRATEGIC OBJECTIVES

Driving Excellence

Material matters

- Financial performance
- Operational efficiency
- Employee productivity
- Risk and governance
- Compliance
- Talent management
- Integrity transparency and accountability
- Environmental impact of the business
- Supplier value creation
- Training and development

Building Customer Centricity

Material matters

- Customer experience
- Responsible lending
- Socioeconomic impacts
- Brand equity
- Customer access
- Health and safety

Being Future Ready

Material matters

- Digital leadership
- Cybersecurity threats
- Macroeconomic factors

1 SOCIAL SUSTAINABILITY

The Bank has concentrated on these key areas:

Sustainability activity	Materiality	SDG relevance
Child development: The Bank ensures that it plays its part in the education and development of children and university students, and as a result alleviates poverty and raises the living standards of the less affluent communities in the country.	• Socioeconomic impacts	
Heritage, culture and religious development: The country and its people have been blessed with a vast and rich cultural heritage, and the Bank has promoted its social value by supporting the arts, culture and religions within the communities in which it operates.	• Socioeconomic impacts	
Diversity and gender equality: The Bank recruits staff in a transparent equitable manner, and is completely inclusive, employing people from all socioeconomic groups from all areas of the country. Gender parity is one of the key areas of pride with 39.6% of senior management represented by female staff members.	• Operational efficiency • Employee productivity • Talent management	

2 ENVIRONMENTAL SUSTAINABILITY

The Bank is committed to applying the latest business practices into its operations, and fostering environmental awareness and responsibility among our employees, clients and suppliers.

People's Green Pulse, our environmental sustainability programme was initiated in 2016 to lead the way among the banking fraternity in:

- Measuring and minimising the environmental Impact due to bank operations.
- Educating and creating awareness among the internal and external community.
- Taking the leadership in environmental friendly banking initiatives of the country.

People's Green Pulse: Buildings, Nature and You

- Buildings
- Processes
- Customers
- Employees
- Society

COMMITMENT TO SUSTAINABILITY

Sustainability activity	Materiality	SDG relevance
Buildings The Green Buildings programme is continuing successfully covering all new buildings and refurbishments of existing buildings. Selected branches designated under the Digitised Banking Programme will be certified as Carbon Neutral buildings. Solar Power generating systems will be incorporated into buildings according to LEED/GREENSL/CIOB Green Mark Certification guidelines. All contractors are required to follow LEED/GREENSL/CIOB Green Mark Certification for new key branches and their materials will need to comply with the requirements.	• Environmental impact	
Processes The People's Bank has taken the lead in digitalisation of processes and island wide rollout of digital services, earning the reputation of the Greenest Bank, with the introduction of paperless banking in most of its operations: • Cash and cheque deposit machines (CDM) • 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	• Operational efficiency • Employee productivity • Environmental impact • Customer experience • Customer access • Digital leadership	
Customers The Green Banking concept has been introduced to customers through the multiple channels made available to them. In particular these areas have proved to be popular with customers: • Opening of accounts through Express Banking which is a paperless operation • E-statements that can be requested by account holders • SMS and Internet Banking • Debit cards – in the pursuit of a cashless society • Express Banking roll-out for new customers • CDM-Cash Depositing, ATM-Cash Withdrawals and Kiosk-Bill Payments • Green Loan system with lower interest rates	• Operational efficiency • Employee productivity • Environmental impact • Customer experience • Socioeconomic impact • Customer access • Health and safety • Responsible lending	
Employees To create the full impact of these programmes it is important that all staff members are total adherents of the sustainability philosophy. To this end employees are encouraged to obtain concessionary loans for the purchase of solar power systems, use environment friendly building methods and seek to purchase electric or hybrid vehicles. They will also be encouraged to switch to electronic documentation and communication methods for both internal and customer communications.	• Employee productivity • Compliance • Environmental impact	
Society In the Bank's quest to become the Greenest Bank in the country, we present the following characteristics to the general society: • Minimum carbon emissions from our operations • We have put carbon management into place and invested in carbon trading programmes • We work as a catalyst in educating the society as a whole by promoting and practising environmental sustainability • Tree planting projects have been undertaken to maximise the production of carbon credits	• Compliance • Environmental impact	

3 ECONOMIC SUSTAINABILITY

The objectives of Economic Sustainability takes us back to the roots of the People's Bank which was established to give an opportunity for a large underserved part of the country's population to partake of the financial services that were available at the time. It was particularly targeted at the grass root level customer – the farmer, fisherman and rural entrepreneur among others. In the six decades since then the Bank has transformed itself into a national powerhouse of financial service excellence. Our aim is to be recognised as Sri Lanka's market leader for financial services.

With this in mind the Bank has set up a series of initiatives for Economic Sustainability:

Sustainability activity	Materiality	SDG relevance
A Sustainability Reporting framework has been established (composed of a Central Sustainability Committee, Regional Sustainability Officers, Branch/ Department Sustainability Officers). The framework includes a key information gathering process.	• Risk and governance • Compliance • Integrity, transparency and accountability	
Providing necessary financial aid to startup new businesses and improve existing businesses at affordable rates	• Responsible lending • Socioeconomic impact • Customer access	
Acceleration of economic development by uplifting the SME sector of the country, whilst enhancing their managerial and marketing capabilities.	• Responsible lending • Socioeconomic impact • Customer access	
Creating new employment and income generating opportunities through appropriate Micro Financing projects.	• Responsible lending • Socioeconomic impact • Customer access	
Enhancing export capabilities of potential entrepreneurs.	• Responsible lending • Socioeconomic impact • Customer access	
Promoting environment friendly operations by funding eco friendly projects such as solar power projects.	• Environmental impact • Responsible lending • Socioeconomic impact	
Improve the financial literacy of the business community and financial inclusiveness by establishing Digital Centres, Self Banking Units and Bank Branches throughout the country.	• Employee productivity • Customer experience • Socioeconomic impact • Brand equity • Customer access • Digital leadership	
Financially cater to all sectors of the economy (Agriculture, Fisheries, Livestock, Export Agriculture, Trading etc.) as per the Asset and Liability Framework of the Bank in order to ensure all sectors will benefit from the facilities offered by People's Bank.	• Financial performance • Customer experience • Customer access • Socioeconomic impact • Brand equity • Digital leadership	

FUTURE OUTLOOK

Future prospects for the Bank are promising as we come out of the year of economic turbulence of 2022, and we will follow a clear set of guidelines for all sponsorship requests coming under three main elements of the Corporate Sustainability frame of reference. They will be considered in relation to the following criteria:

- Final objective/outcome of the corporate sustainability project or sponsorship should come under Social Sustainability, Economic Sustainability or Environmental Sustainability frame work/s
- Stakeholders who request sponsorships for Corporate Sustainability projects must have an account/financial relationship with the People's Bank
- The particular account/financial relationship must be a profitable venture to the Bank as well as the stakeholder.
- The standard cost benefit analysis should be done prior to the consideration of sponsorship for any corporate sustainability project.
- Other than any special project, the sponsorship amount should not exceed 10% of the annual profit of the particular venture and justifiable benefits must result for the Bank and the society.
- Special Corporate Sustainability projects must be approved by the Executive Operations Committee and the Board of Directors with the proper recommendations at their respective authority levels.
- Non account holders who do not have a financial relationship with the Bank must offer adequate benefits (either commercial or non commercial) to the Bank as the corporate sustainability project sponsorship benefits.
- All corporate sustainability project sponsorships must comply with the "Guidelines on Advertising and Promotional Activities of Public Enterprises" which was laid down by the Ministry of Finance and Planning under the Public Enterprise Circular No: PED 57.

67 MANAGEMENT DISCUSSION AND ANALYSIS

68 / Head of Finance's Review
72 / Business Line Reviews
- 72 / Retail Banking
- 73 / Enterprise Banking
- 75 / Corporate Banking
- 77 / Treasury
- 78 / Overseas Customer Services
- 80 / International Banking

82 / Manufactured Capital
87 / Intellectual Capital
95 / Human Capital
108 / Social and Relationship Capital
- 108 / Customer Capital
- 115 / Business Partner Capital
- 120 / Investor Capital
- 124 / Community Capital

129 / Natural Capital

HEAD OF FINANCE'S REVIEW

From the People's Bank's perspective, as a State Institution with a social cause and a national role in addition to its commercial goals – its performance is even more inextricably tied with the country's economic fortunes. During its over six decade operating history, whilst it has dealt with many challenges and economic cycles, 2022 was unlike any seen. During the year under review, the Bank had to face challenges from a liquidity front, foreign currency in particular, an earnings front and a general operational front.

MACRO OVERVIEW

2022 was a year of unseen like before macro-economic setback for Sri Lanka. It was the year which witnessed the culmination of external shocks and stresses over the years snowball into deep economic distress, a year which saw the country's useable foreign reserves dip to an all-time, the country's rating downgrade to levels unprecedented and the ensuing foreign currency liquidity result in, amongst other, a complete halt in economic activity during much of the second quarter of the year. This in aggregate saw the rupee devalue by over 80.0%, inflation sore to a record 70.0% levels and, as a curtailment measure thereto, interest rates rise to a historic high of even north of 30.0%. Needless to say, as the backbone of any economy, the Banking sector was at forefront of such challenge and consequence.

The Operating Environment on pages 40 to 46 more fully sets out the broader global, local and sector operating context in which the industry in general and the Bank operated.

People's Bank's challenges and approach

From the People's Bank's perspective, as a State Institution with a social cause and a national role in addition to its commercial goals – its performance is even more inextricably tied with the country's economic fortunes. During its over six decade operating history, whilst it has dealt with many challenges and economic cycles, 2022 was unlike any seen. During the year under review, the Bank had to face challenges from a liquidity front, foreign currency in particular, an earnings front and a general operational front.

From a liquidity front, downgrade of the country's sovereign rating saw the withdrawal of lines and limits by several overseas lenders. Prior to 2020 – the Bank benefitted from being the largest borrower from foreign counter parties amongst Locally Incorporated Licensed Commercial Banks. However, pursuant to sovereign rating to CCC just by November 2020 from being B prior to the onset of COVID-19 – i.e. simply in a matter of months – saw the Bank lose over USD 1.0 Bn. in external foreign currency access it once had. This coupled with the need to continue to support the nation by importing essentials in a time of dire need – which included primarily crude oil, coal and pharmaceuticals and the general perception related setbacks as similarly faced with other State Peers – saw the Bank deal with significant challenges in its FCY operations. Whilst these challenges yet continue to exists, the Bank has made notable strides towards systematically addressing them over the short-term which will be further aided if macro-economic circumstances show sustained further improvement. From a rupee front, whilst there were early set-back during the first four months of 2022 due to the macro-economic shocks, including high interest-rates, thanks to early measures taken to restrain credit growth whilst driving deposits, the Bank was able to successfully overcome such hurdles and limiting circumstances.

From an earnings front, the extraordinarily high interest rates which prevailed, saw the Bank's Net Interest Margins come under severe pressure. Close to two third of Bank's deposits – similar to the industry – are interest sensitive Term Deposits and over 90.0% of whose maturities are within a period of 12 months or less and thus gets repriced at a faster pace relative to its loan book. Plus, in view of its equally social cause, it deferred any repricing of loans particular of its more vulnerable customer segments across both retail and Small and Medium Scale Enterprises (SMSE). In addition, deteriorated macro-circumstances, naturally dictated deteriorated asset quality and higher impairment charges whilst inflationary pressures inevitably led to cost escalations – all of which creating added earnings pressure. However, all in all, as we have always done and in accordance with the founding principles, we looked beyond the bottom line when formulating our strategies and viewed 2022 as a year where improved resilience, far sighted investments in the long term sustainability and customer centricity far more important relative to any top or bottom line measure. To the Bank's benefit, it was able to deal with each of these obstacles thanks to its dedicated staff and astute leadership and its focus on technology and digitalisation which were all invaluable assets during these trying times.

From a total capital adequacy perspective, notwithstanding such extreme adversity the Bank was able to successfully maintain healthy levels of solvency under existing Basel III rules which compared well with industry peers. This was thanks to the numerous efforts taken by the Bank to augment its regulatory capital since the onset of Basel III on 1 July 2017 which included, amongst other, improving its earnings retention and amendment of the People's Bank Act and the Debenture issuances which followed thereafter.

KEY HIGHLIGHTS

- Consolidated gross income reached LKR 391.2 Bn. representing an 65.2% growth (2021: LKR 236.8 Bn.). This was primarily driven by the high interest rate environment and increases in non-funded sources of income which included one-off fee income and foreign currency exchange gains.

- Consolidated net interest income diminished by 6.0% to LKR 91.0 Bn. (2021: LKR 96.9 Bn.). Net interest margins slipped to 3.1% from 3.7% in 2021. On a Bank standalone basis, net interest margins slipped to 2.7 % from 3.4% in 2021.
- Consolidated operating expenses totalled LKR 59.0 Bn.; a 16.8% increase (2021: LKR 50.5 Bn.). Excluding the Bank's Pension Trust Fund related expenses, total cost increase was 13.2%.
- Impairment charges of the Bank rose by 130.4% year-on-year reflecting pressures on credit quality including staging of some of its key customer exposures. In this context, it must be pointed out that, to the Bank's benefit, the Bank's exposure sovereign investments subject to the external debt restructuring was only USD 51.4 Mn. which was substantially far lower relative to comparable peers.
- Consolidated ROA (before tax) recorded at 0.9% and ROE as 11.2% in 2022, compared to 1.4% and 17.7% respectively in 2021.

INCOME STATEMENT

Total operating income and net interest income

Given the constraints of the operating environment, there were restraints on the main source of the Bank's operating income, net interest income. Lending had to be prioritised to serve sectors that were of national importance; beyond this, caution had to be exercised in lending overall macro-circumstances considered.

Driven by both the rising interest income and non-interest income, the Bank's consolidated gross income increased by 65.2% to reach LKR 391.2 Bn. The main sources of income continued to be interest income, fee and commission income, and other operating income. Consolidated total operating income for the year was LKR 130.0 Bn., increasing from LKR 110.7 Bn. in 2021. The Bank's operating income accounted for 84.8% of total consolidated operating income in the year under review.

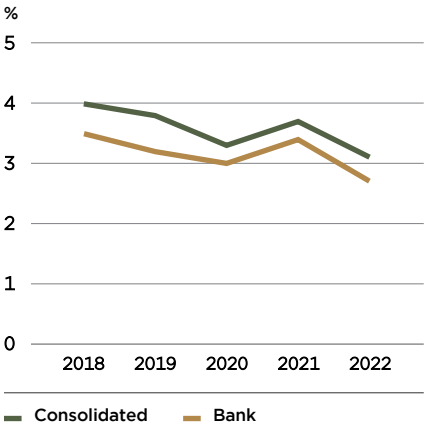
Due to the prudent decisions taken in the past, the profile of our investment portfolio was such that the sudden rise in interest rates that occurred in April 2022 did not lead to any substantial mark-to-market losses. Further, reflective of its far-sightedness and having been accurately classified in the first instance, the Bank had no requirement to seek any regulatory or supervisory consent to reclassify its debt investments to amortized cost. As a result, this considered, the Bank's capital adequacy of the Bank as reported depicts a realistic figure.

	2022 LKR Bn.	2021 LKR Bn.	2020 LKR Bn.	2019 LKR Bn.	2018 LKR Bn.
Total operating income	130.0	110.7	90.8	96.5	89.8
– Net interest income	91.0	96.9	74.4	78.6	71.2
– Non-interest income	39.0	13.8	16.4	17.9	18.7
NIM – (%)					
– Consolidated	3.1	3.7	3.3	3.8	4.0
– Bank	2.7	3.4	3.0	3.2	3.5

Interest income grew by 58.0% to LKR 351.4 Bn. Interest income from loans and advances to other customers accounted for 73.7% thereof while the balance 26.3% was generated on investments in debt instruments (primarily in Government securities). Interest expenses grew by a higher 107.5% to LKR 260.4 Bn., reflecting the massive increase in interest on deposits that had to be incurred to retain term deposits when interest rates soared to 30% and beyond. Of the total interest expenses, deposit related expenses made up close to 80.6% of which more than 80% was on account of term deposits. The balance 19.4% was paid on other sources of funding.

Consequently, the net interest income declined from LKR 96.9 Bn. in 2021 to LKR 91.0 Bn. in 2022, a drop of 6.0%. The Group's net interest margin declined from 3.7% to 3.1% YoY. A multitude of factors contributed to this situation which included the interest bearing liabilities (deposits in particular) getting re-priced faster and at relatively higher rates than the interest earning assets and the offer of higher rates to attract/retain deposits in the wake of intense competition given the lower level of market liquidity that prevailed. Further, the Bank witnessed a shift of deposits from low cost current and savings accounts to term deposits, a phenomenon seen across the industry in times of high interest rate regimes, leading the CASA ratio to drop to 30.2% during the year from 39.3% in 2021.

NET INTEREST MARGIN



Non-interest income

In the prevailing climate of volatility of interest rates, improving its sources of non-interest income is a priority area of the Bank to develop. Non-interest income comprises fee and commission income, trading income and other sources of operating income. The Group's non-interest income increased from LKR 13.8 Bn. in 2021 to LKR 39.0 Bn. in 2022, an increase of 181.8%. This however primarily was driven by the gains on foreign currency revaluation and one-off increases in fee and commission income. These excluded, on a normalised basis, non-funded income to total income would be close to 23.8% which is yet reflective of its improve its other sources of income. These efforts are reasonably expected to continue in the years ahead.

Consolidated fee and commission income, which includes fees related to loans and advances, trade-related transactions and credit cards and fees earned on digital transactions, increased from LKR 9.6 Bn. in 2021 to LKR 17.2 Bn. in 2022. Other operating income which mainly consists of net earned premiums from insurance business decreased from LKR 6.0 Bn. in 2021 to LKR 5.6 Bn. in 2022.

Impairment charges

Impairment charges more than doubled from the previous year, which had to be expected due to the challenging macro-economic conditions. The entire business sector, from the MSMEs to the large corporates and to the state owned was severely stressed. As a result, during the year, the Bank made a prudent assessment of the degree of risk which major customers were subject to as a result of prevailing market circumstances. Based on this, decisions were made on transferring customers to higher stages in risk categorisation as requisite under the circumstances.

For the Group, impairment charges rose from LKR 14.5 Bn. in 2021 to LKR 34.4 Bn. in 2022 (an increase of 137.2%). Taking the Bank alone, the corresponding figures were LKR 14.5 Bn. and LKR 33.3 Bn. (an increase of 130.4%).

In the year under review, impairment provision for exposures in Stage 1 decreased by 17.9% while that for Stages 2 and 3 increased by 79.5% and 27.1% respectively. Cumulative Stage 3 provisions reached LKR 117.1 Bn. at the end of 2022 from to LKR 92.2 Bn. in the previous year. As at end 2022, on a consolidated basis, impaired loans (Stage 3) ratio increased to 12.6% from 4.7% the previous year. On a stand-alone basis, the figures for the Bank were 12.8% and 4.0% respectively. In the current context, the Bank accords highest priority for reducing the exposures to the state and the state-owned organisations and recovering loans granted to risk elevated industries and corporates, MSMEs and individuals who are experiencing stress on their cashflows.

Operating costs

Total operating costs increased by 16.8% to LKR 59.0 Bn. in 2022 from LKR 50.5 Bn. in 2021. The largest component of operating costs which is personnel expenses accounted for approximately 54.6% of the total operating costs. Personnel costs recorded an increase of 16.8% at the Bank level during 2022, when compared with 2021. This increase reflected increases in remuneration that had to be granted to staff in view of primarily inflationary pressures.

Other operating costs increased by 17.6% from LKR 22.8 Bn. in 2021, to LKR 26.8 Bn. during the year under review. Despite the spiralling inflation and resulting cost pressures, the Group's cost to income ratio (inclusive of VAT on financial services) was broadly maintained at close to 53.0% levels; at the Bank level, there was a modest improvement to 50.4% in 2022 from 51.1% in 2021. Relative to 54.3% in 2020, this demonstrated the Bank's efforts to consistently improve its cost efficiencies, especially through automation and digitalisation. With efforts in this connection yet continuing, further improvements can be reasonably expected over the short-to-medium term as the Bank intensifies its focus on further improving productivity and operational efficiencies, much of which is aided by its digitalisation efforts.

Profitability

The Group's pre-tax profit contracted by 28.3% to LKR 26.7 Bn. in 2022 from LKR 37.2 Bn. in 2021. This is largely attributable to the contraction in net interest income, increase in impairment charges and operating costs as detailed above.

Contributing to the state's coffers

The Group's contribution to government for the year 2022 were LKR 17.8 Bn. which was 13.1% lower than the contribution for 2021 of LKR 20.4 Bn. Despite the increase in the income tax rate to 30% effective from 1 October 2022 from the 24% applicable earlier, the charge to income statement on account of income tax reduced due to lower profitability, an increase in the deferred tax asset on provision for impairment charges for loans and advances and the deferred tax being recomputed at the new income tax rate of 30%.

A team of highly competent specialists, under the purview of the Head of Finance, manages the Bank's tax matters. In addition, the services of an outside consultant has been utilised to handle the computation of the income tax liability, the filing of tax returns and related administrative functions. Rigorous monitoring by the Internal Audit, the Compliance Unit, and the external auditors ensure compliance. The Bank follows its principles of social responsibility in tax matters as well. The Head of the Tax Unit continually liaises with the Inland Revenue Department to ensure adherence to laws and regulations. There were no non-compliances with tax laws and related regulations during the year.

STATEMENT OF FINANCIAL POSITION

Deposits

The Bank's drive to increase deposits clearly brought results when the deposit base grew by 13.0% from LKR 2,168.7 Bn. at end 2021 to LKR 2,450.1 Bn. at end 2022. This increase is highly commendable in an environment where disposable incomes of retail customers were severely affected due to inflationary pressures and MSMEs and corporates were experiencing severe cash flow constraints. Undoubtedly, attractive interest rates that were being offered contributed to the deposits growth. Our focus on technology and drive for excellence in customer service too contributed to these results. Total deposits accounted for 79.8% of the fund base reflecting the strength of the Bank's deposit franchise and the wide branch network, its broad customer base, and the confidence among a large section of the population that it has built up over the years.

A very significant achievement during the year was the increase in the market share of our inward remittances. This is an indication of the success of the drive to increase overseas remittances, especially the "*Vaasi Kotiyayi*" campaign. The fruits of this campaign were evident by the fact that we were able to double our market share of remittances. It is also noteworthy that this contributed significantly to arrest the decrease in the CASA ratio.

	2022 LKR Bn.	2021 LKR Bn.	2020 LKR Bn.	2019 LKR Bn.	2018 LKR Bn.
Current Accounts and Savings Accounts (CASA)	739	853	757	571	543
Term deposits	1,707	1,310	1,172	1,012	943
Others	4	6	6	6	10
Total	2,450	2,169	1,935	1,589	1,495
CASA (%)	30.2	39.3	39.1	35.9	36.3
Currency					
Local (%)	87.8	90.1	89.8	91.8	93.4
Foreign (%)	12.2	9.9	10.2	8.2	6.6
Total (%)	100.0	100.0	100.0	100.0	100.0

Loans and advances

There were many constraints on lending during the year under review. These included liquidity constraints and the need to prioritise lending to sectors that were of national importance, even if there were other more lucrative opportunities. Furthermore, caution had to be exercised when lending at high rates and the potentially high risk of impairments in many sectors. Gross loans and advances portfolio contracted by 2.0% in 2022, from LKR 2,103.6 Bn. to LKR 2,061.1 Bn.

	2022 LKR Bn.	2021 LKR Bn.	2020 LKR Bn.	2019 LKR Bn.	2018 LKR Bn.
Total advances (gross)	2,061	2,104	1,876	1,544	1,490
By type					
Overdraft	111	392	258	145	126
Trade finance	423	299	251	234	281
Pawning	185	195	175	163	150
Term loans	1,166	1,092	1,073	880	808
Lease rental receivable	64	79	82	88	95
Others	113	47	38	34	30
Total	2,061	2,104	1,876	1,544	1,490

The loans and advances by type reveal a sharp drop in overdrafts and substantial increase in trade finance. The latter reflects the priority given to supporting exports.

Solvency

Our capital ratios remain the highest among the systemically important banks in Sri Lanka. As at end 2022, the Consolidated Tier 1 Ratio and total Capital Adequacy Ratio were 13.3% and 17.2% respectively (2021: 13.4% and 17.9%) whilst, on a Bank standalone basis, it was 11.9% and 16.3%, respectively (2021: 12.6% and 17.8%). To save any doubt, and needless to say, these were existing Basel III rules considered. A factor that has enabled us to preserve the CAR has been our capital augmentation measures taken since the onset of Basel III on 1 July 2017 which included, amongst other, improving our earnings retention and the amendment of the People's Bank Act which has allowed for the issuance of Basel III compliant Additional Tier I and Tier II Debt Instruments. Since amendment of its Act on 30 September 2019 – the Bank has successfully issued Basel III compliant additional Tier 1 and Tier 2 Debentures to the tune of LKR 35 Bn. It must be said that these successes are also owed to the General Treasury, Ministry of Finance for their support and assistance extended to the Bank on this front over the years.

Liquidity

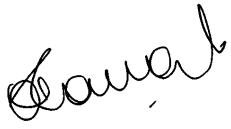
Managing liquidity became a matter of paramount importance during the year for several reasons. Due to genuine difficulties caused by the macro-economic climate, clients from all banking units, corporates, MSMEs, and individuals were experiencing great difficulties in honouring their loan commitments. In addition, there was a shortfall in the interbank market.

At end 2022, the Bank's Statutory Liquid Assets Ratio across its Domestic Banking Unit and Off Shore Banking Unit was 21.4% and 20.1%, respectively as compared with 23.5% and 25.9% at end 2021. Our performance in this regard compares favourably with the regulatory minimum of 20.0%. Our All Currency Liquidity Coverage Ratio was 119.5% as compared with 105.7% at end 2021; the regulatory minimum stands at 90.0%.

Looking ahead

Needless to say, the process of recovery will be a long and arduous one and one which hinges on many moving parts. That said, we remain optimistic that we on the right path to recovery and the changes which have taken place, those taking place and, more importantly, those likely under the Ministry of Finance and the Central Bank of Sri Lanka under guidance of International Monetary Fund, the World Bank and other bilateral agencies – will shape the country's future for the better

We look forward with cautious optimism!



Azzam A Ahamat
Head of Finance
2 March 2023

BUSINESS LINE REVIEWS

RETAIL BANKING

KEY HIGHLIGHTS

LKR 172 Bn. pawning portfolio

LKR 450 Bn. retail loan portfolio

Curated banking services packages **Elegance and Excelsior**

Personal loans processed **within 24 hours**

The Retail Banking Division of People's Bank provides a wide range of products and services to cater to individuals from all walks of life, including savings and deposit schemes, loan schemes for individuals, professionals, as well as pawning services. Despite a challenging economic environment characterised by the impact of COVID-19, liquidity crises in both foreign and local currency, inflation, surging prices, and interest rates, the Retail Banking Unit has taken the lead in driving growth by undertaking an ambitious, island-wide campaign to increase retail deposits.

To foster teamwork and instill a positive competitive culture throughout the network, the Division implemented an innovative strategy that included sharing inspirational verses and motivational messages among teams, transforming official circulars into visually appealing and engaging action cards, closely monitoring branch office performance, and announcing outcomes through colourful and appealing displays on official WhatsApp groups. Daily ranking charts were generated to showcase the top 10 branches in each grade for each product category, creating a competitive culture that fostered teamwork and motivated branch teams to surpass their previous performances on a daily and weekly basis.

Despite the challenges faced during the year, the Bank has successfully implemented a unique motivational gaming strategy to build teams, resulting in positive outcomes. The Bank has experienced growth in its market share in the categories of savings and current accounts, as well as in total deposits within the banking sector. The success of these schemes can be attributed to the Bank's motivational initiatives.

Throughout the year, the Retail Banking unit holds awards ceremonies to acknowledge exceptional performance in each promotional campaign and product category. These ceremonies also include awards for the best branch and other related categories.

This interactive and motivational activity yielded exceptional results, highlighting the importance of a positive and competitive culture in driving growth in challenging economic environments. The Retail Banking Unit's commitment to serving the best interests of its customers and serving as the face of the Bank has been evident throughout this period, and its efforts to reinvigorate the industry are commendable.

Two new premium customer segments have been identified by the Bank, and new products have been launched to cater to each of these segments.

- **Elegance –** a high net worth individuals and top end salary earners that will be serviced by Branch Managers.
- **Excelsior –** upper middle level salary earning professionals that will be serviced by Excelsior Ambassadors who will be appointed from the existing branch staff. Both segments will be entitled to a range of benefits, such as exclusive services at any branch, customised credit and debit cards with special perks, travel insurance, and access to airport business lounges.

FUTURE OUTLOOK

A series of meetings will be held with the Regional offices to conduct a review of the previous year's performance, evaluate the results, clarify the lessons learned, and identify necessary changes to be implemented in the new financial year. The successful team building and motivational activities will be continued, along with the event calendar which has already been scheduled for 2023.

New products will be developed based on current customer requirements, and existing products will be modified to provide customers with greater benefits. Customer retention will be a major focus, and service levels will be increased to improve the customer offering. The new premium segments are part of this initiative.

ENTERPRISE BANKING

KEY HIGHLIGHTS

USD 90 Mn. worth of low-cost financing

Interest income grew by **165%**

More than **4,000** new customers

Three MOUs were singed with external parties

The Enterprise Banking Department is committed to serving the Sri Lankan economy by catering to the needs of micro, small, and medium enterprises. The department comprises four sections: Commercial Credit, SME Credit, Micro Finance and Development Banking, and the newly established Business Revival and Project Finance unit.

During the year, the Department played a critical role in supporting businesses that were severely affected by the prevailing economic conditions, which had improved significantly in the second half of the year. However, the SME sector faced further challenges in 2022 due to power and fuel shortages, price hikes, and rising interest rates. Additionally, foreign exchange restrictions made it difficult for some industries to function, and the Central Bank issued moratoriums for some sectors to assist them.

Our Department's first priority was to provide support to SMEs in managing the immediate economic stresses, recovering their businesses, and preparing for future growth. Our second priority was to improve our contribution to the growth of the export industries.

To achieve these objectives, we implemented various programmes to revive and safeguard impacted businesses by infusing working capital into strategically significant sectors. Our Business Revival Unit provided advice and financial support to affected enterprises for restructuring their finance facilities and revamping their business strategies. Our focus was on retaining customers, revitalising their businesses, and preventing them from defaulting on their debts.

The Bank went beyond the moratoriums issued by the Central Bank of Sri Lanka, and provided its own relief packages to clients. We were able to accommodate the majority of requests from our commercial, SME and micro customers for modifications to their loan conditions and repayment plans, whilst some were provided with additional funding specifically for working capital needs.

Nearly USD 90 Mn. worth of low-cost financing, acquired directly from the Asian Infrastructure Investment Bank in China, was disbursed at a very low interest rate of between 5% to 5.5% to revive these affected businesses. This funding line allowed businesses to improve their cash flows during a time when regular interest rates were prohibitively high, and they could use this working capital injection as a lifeline. In addition to regular customers, the Bank was also able to increase its customer base through this exercise, as many businesses who had no access to affordable funding became new customers of the Bank.

In addition to financial support, the Bank's Regional Credit units worked closely with customers, providing advice on business strategies, restructuring their assets, and guiding their revival. Here too, some funding was provided depending on their cash flow and repayment capability. Our nationwide network of Branch Managers, experts in various industries in their regions, closely monitored the performance of customers and provide guidance where needed.

The Bank acknowledged that the agriculture sector had faced some challenges during the year, and initiated two programmes in conjunction with the Central Bank to assist the sector:

- Domestic Agriculture Development Programme (funded by CBSL): A pilot project to ease the supply chain financing; the Bank has supported more than 120 customers with approximately LKR 150 Mn.
- Smallholder Agri-business Partnership Programme: Under this programme, the Bank has accommodated more than 1,000 customers with LKR 500 Mn.

The People's SPARK programme is an innovative initiative designed to equip recent graduates with the skills and resources they need to pursue entrepreneurial ventures following the completion of their degrees. From a large pool of applicants, we selected 45 candidates who received training through the University of Colombo, led by a panel of experienced mentors. Upon completing the programme, they were granted loans to launch their own businesses and are now being supported and supervised by our regional credit units. This programme is particularly significant given the current climate, which offers limited prospects for government employment among university graduates.

Although lending overall was limited due to the prevailing economic conditions, funds were provided for certain strategically

important categories. As foreign exchange was scarce, and the Bank was compelled to prioritise the needs of certain state-owned enterprises (CEB, Lanka Coal, Petroleum Corporation, and Fertiliser Corporation) for energy, fuel, and fertiliser supplies. The remaining available funds were distributed fairly among our customers on a case-by-case basis. Priority was given to exports, pharmaceuticals, and the food and beverage sectors for these allocations. The focus was on stability rather than growth at this time, and despite the challenges faced during the year, we have remained faithful to the guidelines and achieved the Department's targets successfully.

PERFORMANCE HIGHLIGHTS

	2022 Loans granted	
	Number of loans	Amount LKR Mn.
Loan schemes with refinance – SME	936	6,066
SME loans – under People's Bank own funds	568	1,132
Loan schemes with refinance – D & MF	494	617
D & MF loans – under People's Bank own funds	5,152	1,696
Loan schemes with refinance – CC	247	1,775
Commercial credit – under People's Bank own funds	1,828	16,995
TOTAL	9,225	28,280

More than 4,000 new customers were acquired during the year which was 211% higher than the budgeted. Three MOUs were singed with external parties in year 2022. Interest income grew by 165% due to increased interest rates industry wide. Only 90% out of budgeted advances were granted and NPL value was below the budgets which reflects rigorous monitoring and control of the enterprise banking department.

FUTURE OUTLOOK

The outlook for Enterprise Banking appears promising, assuming an improvement in the global economic climate. While personal and housing loans have been reduced, small businesses have demonstrated signs of recovery by the year-end.

To boost foreign exchange earnings, we aim to establish Export Hubs throughout the country in partnership with the Export Development Board (EDB) to facilitate local sellers' connections with foreign buyers and enable profitable and efficient trade. The Bank and EDB will assist small manufacturers in accessing new overseas markets. We will prioritise supporting new customers in the Export Sector with value-added exports, such as tea, coconut, pepper, and other spices. We will engage with customers regularly and provide education on business planning, online and digital marketing, and other skills to improve their knowledge and abilities.

The Bank also plans to promote advanced agricultural practices, such as Controlled Environment Agriculture, utilising greenhouses, polytunnels and sprinkler and drip irrigation water systems. This will optimise land, water, and fertiliser usage and enhance the yield of designated fruits and vegetables with high export potential.

Looking forward, the Bank intends to explore Green and Blue Financing. We are currently negotiating with multilateral and regional banks for a line of funding, which will train local teams to assess and lend to green projects. We have also developed green finance loan schemes, and will issue green bonds. In the near future, we will expand into Blue Financing to further to our environmental and social governance (ESG) guidelines.

The Bank values its partnership with Multi-Purpose Cooperative Societies (MPCS) and Rural Banks throughout Sri Lanka and is seeking to refresh this relationship for mutual benefit. We will re-launch the "One Village One Product" microfinance model to revitalise micro-enterprises. Our Branch Managers are empowered to provide low-interest loan schemes to finance these enterprises while improving their financial discipline.

Our Enterprise Banking Department aims to achieve a loan growth of 25% in the upcoming year. As retail customers are spending less, we will look to the business sector to drive growth in the coming months. With the strategies and plans we have developed, we aim to meet this target and maintain our commitment to the Department's goals.

CORPORATE BANKING

KEY HIGHLIGHTS

Prioritising support to exports and imports substitutes

Operating income grew by **141%**

Commitment to **support SOEs**

Partnered with BOI and EDB

The Corporate Banking Division specialises in catering to the business sector by offering a range of products and services that are often customised to suit the individual requirements of clients, which include high-profile state-owned enterprises (SOEs), contractors, manufacturers, exporters, and importers who provide vital services to the nation and employ thousands of individuals. Hence, the Corporate Banking Division plays a critical role in ensuring the growth and development of the national economy.

Following the challenges of post-pandemic recovery efforts across the country, corporate clients have encountered several additional setbacks, such as political instability, economic uncertainties, high inflation, a decline in global demand, and a worldwide financial crisis. All these factors have combined to adversely affect all sectors of the economy, severely hampering business continuity. This downturn has had a cascading impact on supporting industries, including a significant drop in the tourism sector. Moreover, foreign currency inflows have reduced, with Sri Lankan expatriates exhibiting a clear preference for informal players who offer higher conversion rates for remittances. Consequently, the Bank and the country as a whole have faced a dire foreign currency liquidity position.

We have developed our primary strategies and performance to align with the overall economic goals of the country. These strategies involve:

- Limiting non-essential imports to conserve scarce foreign currency
- Prioritising support to the export and import substitution sector
- Encouraging foreign currency and high-volume SLR deposits
- Increasing inward remittance volumes
- Promoting the growth of the private sector in selected categories based on their priority status and viability to offset the high exposure to the SOE sector.

As a state-owned bank, we had to prioritise and honour pre-existing commitments to support key state-owned enterprises (SOEs), such as the Ceylon Petroleum Corporation, Lanka Coal, Ceylon Electricity Board, and Ceylon Fertilizer Company. Additionally, we provided off-balance sheet facilities to major contractors involved in infrastructure projects for entities such as the Water Board, Road Development Authority, Urban Development Authority, and other large-scale initiatives. However, this continued support placed significant pressure on our foreign reserves, and we made the strategic decision to allocate resources based on essential needs of the country. In light of the evolving situation and emerging challenges, we recognised the need to revisit our import-driven strategies and devise new approaches to overcome critical issues.

The Government's imposition of import restrictions on several categories of goods had a constraining effect on credit growth. As a result, we had to realign our focus from import customers to exporters and manufacturers of import substitutes. In addition to supporting state-owned enterprises, we provided assistance to customers in vital sectors such as agriculture, manufacturing, IT, and health, facilitating the import of essential equipment and medicines.

Our portfolio was heavily weighted towards the state-owned enterprise (SOE) sector, accounting for approximately 70% of our exposure, with only around 25-30% allocated to tourism and the private sector. This year, we sought to reduce this imbalance by selectively pursuing export-oriented private sector customers, with a particular focus on funding growth in priority sectors such as IT.

Despite this focal shift, the Corporate Banking Division faced numerous challenges during the course of the year, including the impact of the global pandemic on foreign currency liquidity, as well as the lingering effects of the Easter Sunday attack and continuing political turmoil. Furthermore, our Bank granted the highest number of moratoriums in terms of volumes and number of customers, compared to other commercial banks in the country.

The increase in interest rates added to the negative impact on the Department's performance, resulting in a 97% drop in profit before tax. Although the Department recorded an operating income of LKR 31.9 Bn, which represents an increase of 141% compared to the previous year, non-performing loans and advances increased by 1%, reaching 6% of the total loans and advances granted by the Corporate Banking Division.

Venturing beyond our traditional role, we partnered with the Board of Investment (BOI) and the Export Development Board (EDB) to facilitate local manufacturers in establishing connections with potential overseas buyers and create opportunities for exports. Although the outcomes of these efforts may only be seen in the long term, we pursued these opportunities nevertheless. The EDB provided our customers with essential information on procedures, regulations, shipping arrangements, and coordination where required. As a result, our Bank was able to acquire several new export customers who were previously working with other banks.

The increase in exchange rates and import restrictions led to steep price hikes in imported goods and raw materials, which negatively impacted business continuity and profits. In order to prevent customers from slipping into non-performing status, we monitored their businesses vigilantly and offered professional advice wherever possible. The Central Bank introduced several moratoriums and concessionary terms and facilities to assist businesses in staying afloat. We also provided further benefits and extensions to at-risk customers based on our own evaluation. Our primary focus was on retaining clients with healthy businesses that can grow in the long term despite the current difficulties.

We expanded our service offerings by onboarding new clients using the digital platform that enables them to conduct regular banking functions such as remittances, letter of credit openings, and payroll management. Furthermore, we offer cash management and value chain management solutions through our IT division, which generates additional revenue. Despite the challenges, the Corporate Banking portfolio has been sustained, increasing interest and fee income.

PERFORMANCE HIGHLIGHTS

	2022	2021	2020
Net income (LKR Mn.)	32,618	13,223	13,565
Net profit before tax (LKR Mn.)	4,189	5,399	6,142

CORPORATE BANKING ADVANCES AND DEPOSITS CURRENCY WISE

	2022		2021		2020	
	LKR	FC	LKR	FC	LKR	FC
Advances (LKR Mn.)	392,670	477,777	322,352	367,818	330,433	365,738
Deposits (LKR Mn.)	43,888	68,676	69,968	84,894	72,437	85,814

FUTURE OUTLOOK

The year ahead will be challenging, but the aim is to continue to maintain and grow the portfolio of customers, while shifting our attention to new areas of opportunity. Primarily we will concentrate on the export oriented manufacturers and services and provide support and advisory services sharing the expertise of BOI and EDB. Together we will create opportunities for export customers to grow, and follow up to ensure efficient transfer of export remittances into the country so that our economy reaps the full benefits.

We will be partnering with the Port City Commission monitoring the FDIs that come in and channel them through the Bank. The IT Parks which were planned, and initiated, but have not progressed due to the economic disruptions of last year, will be revived and completed, leading to more opportunities to earn foreign exchange.

Overall there is optimism based on the promise of debt restructuring from India, and the IMF funding expected in 2023. Following the IMF facility, we expect other agencies such the World Bank and the ADB to also open credit lines to provide further assistance which will boost the economy into a growth phase.

TREASURY

KEY HIGHLIGHTS

The Bank's equity portfolio achieving a return of **over 30%**

The Treasury Unit performs a range of key functions including balancing assets and liabilities, ensuring sufficient liquidity, managing foreign exchange transactions, and overseeing the Bank's overall profitability. This specialised unit manages the inflow and administration of funds, as well as the liquidity and associated risks of the Bank's investments. Furthermore, the Investment Banking Unit (IBU), established in 2012, provides additional support to the Treasury's operations through its investment banking activities. The IBU is responsible for managing the Bank's listed shares and corporate debt portfolios, and generating fee income by providing consultancy services to clients for their IPOs, debenture issues, and other financing and business-related matters.

The Bank faced numerous challenges during the year under review, including the lingering impact of the 2020 pandemic and the power and foreign exchange shortages of 2021. The downgrading of Sri Lanka by international credit agencies was a significant issue that affected the entire financial sector in the country, including People's Bank. As a result, many regular lending agencies were unable to fund Sri Lankan banks, prompting a critical reassessment of inflows and the allocation of available foreign exchange resources. At the start of the year, the large difference between the official and unofficial exchange rates resulted in Sri Lankan overseas workers using informal channels to transfer their earnings. This trend reversed as the LKR was floated and the margin between the official and unofficial exchange rates narrowed. However, some expatriate workers continued to use informal channels, possibly to avoid having their incomes becoming known to the authorities. The fuel shortage and negative news coverage of the country also led to a decline in tourist arrivals at the beginning of the year, and the numbers gradually decreased as the year unfolded. Furthermore, reduced interbank market activity presented additional challenges to liquidity.

In order to meet the challenges of the economic downturn and foreign exchange crisis, the Treasury department implemented several key measures to mitigate risks and stabilise the situation. These included steps to counter the adverse impacts and offset most of the potential losses. The highest importance was accorded to maintaining USD liquidity, which required foreign exchange to be allocated on a priority basis. Some of the preplanned lending operations had to be curtailed, and funds were redirected to essential services of entities such as Ceylon Petroleum Corporation, Ceylon Electricity Board, and Lanka Coal Company, for the importation of fuel to meet the needs of the transportation and power sectors. Similarly, funds were also allocated for the importation of goods for State Pharmaceutical Corporation and fertiliser companies, among others.

The Treasury Unit has made an admirable contribution to the Bank's overall profit, despite the challenging circumstances, which includes Foreign exchange gains, capital gains, interest income, fee income, and income from other Investment Banking products. The Unit has also been successful in maintaining sufficient liquidity to fulfil the Bank's obligations. The Investment Banking Unit has had a highly successful year, receiving the prestigious award for the Best Investment Bank in Sri Lanka in 2022 from Global Banking and Finance Review. The Bank's equity portfolio performed exceptionally well, achieving a return of over 30% despite the overall market showing a negative return of 27%. Although clients postponed several planned activities such as IPOs due to a cautious approach, the IBU was able to offset the resulting revenue losses by diversifying into new revenue streams, mainly by providing trustee and custodian services.

The Treasury Sales Team represents a significant initiative currently underway, which involves collaboration between the Treasury Officers and Customer Relationship Officers. This customer-centric initiative aims to promote Treasury products. The Bank has taken steps to recruit and train new staff members in both areas, including treasury products and customer relations.

FUTURE OUTLOOK

Looking ahead to the coming year, the Treasury Unit anticipates challenging circumstances, but remains confident in its ability to overcome such obstacles. Our limited exposure to USD-denominated securities means that we need not fear any external debt restructuring. We plan to pursue additional business acquisitions through the Treasury Sales Team, in tandem with the Customer Relationship Managers, in order to expand our income opportunities. Furthermore, the Unit aims to continue making astute stock selections to enhance the Bank's share portfolio, and also to venture into portfolio management for high-net-worth Individuals. We will also expand our Trustee and Custodian Services, as these services offer a steady revenue stream. There are also anticipated opportunities for advisory services in areas such as restructuring of State Owned Enterprises, as well as Mergers and Acquisitions, which would create additional revenue streams.

The Treasury Unit maintains strong relationships with a number of funding sources and overseas counterparties on an ongoing basis. These connections have been crucial in the past for obtaining favourable rates, and even though these agencies may not currently be able to provide loans to Sri Lankan banks, the relationships will prove valuable in the future when the situation normalises to an acceptable level.

OVERSEAS CUSTOMER SERVICES

KEY HIGHLIGHTS

Inward worker remittance **market share** increased by **50%**

Inward worker remittance increased by **USD 32.38 Mn.**

"The People's Remittance ***Vaasi Kotiyayi***" grand prize of **LKR 10 Mn.**

Market expanded to Malaysia, Spain, Jordan, Denmark, and Russia

The Overseas Customer Services (OCS) is the core centre of the Bank which facilitates and implements all necessary channels and infrastructure for attracting Inward Remittances to the Bank whilst providing necessary knowledge and guidance on Foreign Currency Accounts and Special LKR accounts introduced by the CBSL. OCS is dedicated to helping customers residing in and out of Sri Lanka to manage their finances in foreign exchange, repatriate earnings, and carry out transactions in designated foreign currencies. The Bank's network of global partners supports these services, allowing the OCS to play a significant role in directing foreign exchange into Sri Lanka.

During the year under review, a decline in foreign exchange reserves significantly impacted the performance of the entire Banking industry. and triggered several related crises. Downgrades by lending agencies resulted in reduced confidence among both Sri Lankan citizens and expatriates. Expatriate workers who had returned to Sri Lanka due to the pandemic, were slow to take up their previous positions overseas, which resulted in an overall drop in remittances. Additionally, the period of political uncertainty during the first half of the year worsened the situation. As a consequence, Sri Lankan expatriates turned to informal channels to remit their foreign exchange earnings, as they were able to obtain a more favourable exchange rate compared to formal channels. The difference in official and unofficial rates became less significant later in the year resulting in greater reliance of formal channels. Despite these challenges persisting during a major part of 2022, the latter months witnessed recovery trends, with increased foreign employment opportunities arising following the easing of the pandemic, and more Sri Lankans seeking jobs overseas.

Given the aforementioned negative outlook, and recognising our position as a state Bank, the OCS assumed the responsibility of augmenting foreign currency inflows and channeling foreign exchange resources for the country's economic regeneration and development.

In order to address these concerns, the OCS pursued several proactive and innovative strategies in 2022 to enhance the outreach, effectiveness, and efficiency of our operations:

- Enhancing awareness regarding our overseas services among Sri Lankan expatriates working abroad.
- Providing attractive incentives to encourage this segment to remit their earnings through the Bank, and dissuading them from using informal channels. It included very attractive Reward Schemes as well.
- Leveraging digital platforms and tools for a more streamlined and efficient service, as well as greater customer convenience.
- Expanding its facilitation to the business segment specially the exporters in collaboration with Export Development Board.

"The People's Remittance *Vaasi Kotiyayi*" draw spearheaded the thrust of our main promotional campaign, considerably elevating our profile and yielding outstanding results. Customers who remitted foreign funds to their People's Bank accounts or other bank accounts through People's Bank, or through over-the-counter methods, were eligible for prizes, including cash and gold sovereigns. The probability of winning increased in proportion with the amount remitted, which was a great incentive to remit more. The culmination of the campaign was a grand prize of LKR 10 Mn. at the end of the year. The intensive awareness campaign contributed to more than doubling our share for inward worker remittances.

Our use of digital technology and electronic transaction channels formed a crucial aspect and pivotal shift in streamlining our operations. These helped customers to interact with the Bank at their own convenient time and place. This also enabled the receipt of remitted funds in Sri Lanka within seconds, facilitated by the state-of-the art technology platforms of the Bank as well as of global partners.

The Bank's market expansion plans are progressing according to schedule, and we have added Malaysia, Spain, Jordan, Denmark, and Russia to our portfolio. We have representatives in many countries catering to the needs of Sri Lankan workers residing in different parts of the world. Moreover, we have expanded our network of overseas correspondent banks, keeping pace with the rising number of Sri Lankan expatriate workers who have relocated overseas this year for employment.

As competitors have followed the lead of People's Bank and introduced incentive/promotional schemes, we must improve our offerings to retain our competitive advantage. Building on the awareness and enthusiasm already created, we aim to increase inward remittances significantly in the coming year, and enhance our global footprint further.

PERFORMANCE HIGHLIGHT

- Market share of inward worker remittance was increased by 50% in 2022
- Value of inward worker remittance was increased in 2022 by USD 32.38 Mn. over 2021
- Number of inward worker remittances received in 2022 was increased by more than 300,000 transactions
- FC deposits of the Bank as at 31 December 2022 was USD 737.7 Mn.

Number of correspondence banks

	2022	2021	2020	2019
Vostro arrangements	82	78	71	71
Nostro arrangements	43	42	42	42

FUTURE OUTLOOK

The Bank will expand the scheme for customers with overseas Credit or Debit Cards to remit foreign currency to Sri Lanka without physically visiting Bank/Exchange House. This will be of immense help to Sri Lankan expats, particularly those working on a shift or roster basis. We are also in the process of developing several other digital tools to facilitate easier remittance of funds to People's Bank or other bank accounts and cash.

The coming year will see the introduction of new loan schemes and we are planning to grant Housing Loans of up to LKR 25 Mn. or more, and Pre Departure Loan Schemes at concessionary rates. The need to repay these loans will encourage workers to extend their tenure overseas, which will be a continuing source of foreign currency remittances. Spearheading its success from the foreign currency products launched, the division is contriving to make more additions to diversify its product range in the coming year.

INTERNATIONAL BANKING

KEY HIGHLIGHTS

Over USD 1.0 Bn. import related trade transactions

Over 1,000 overseas correspondents across **110 countries**

ISO 9001:2015 recertification

Our **expertise** to selected SOEs

The International Banking Division (IBD) facilitates the international business activities of its corporate customers and branches utilising a wide range of products and services. Services to support international trade include opening letters of credit (LC), handling export related documents and Pre and Post shipment financing facilities as well as the issuance of guarantees. These services are provided through centralised operational units, including the Offshore Banking Unit backed by over 1,000 overseas correspondents across 110 countries. Offshore transactions are facilitated by Offshore Banking unit which offers range of foreign currency loans, deposits and accounts.

During the year under review, a number of factors impeded our operations, including the post-pandemic recovery and fuel crises, which were followed by a severe liquidity crisis in both local and foreign currencies. Consequently, our limited foreign exchange resources were redirected to major state-owned enterprises that provided essential goods and services, such as Fuel, Coal, Pharmaceuticals and Fertilizer etc.

Due to restrictions prevailing during the year on several categories of imports we have to shift our attention towards export-oriented business and have ventured to focus on promoting Exports. Our branches embarked on a campaign to attract more export-oriented customers and increase repatriation of foreign exchange earnings. As a major initiatives, major zones/regions have already been identified and targeted exporters in that zone/region will be provided with financial and technical assistance required.

Responding swiftly to mitigate the disruptions caused by the post-COVID scenario, the International Banking Division adopted new operational methods, in addition to harnessing the power and potential of digitisation. Customer onboarding was enabled through our Corporate Internet Banking module, which streamlined and expedited the process of conducting business. More customer contacts and correspondence were carried out via email and electronic documentation, resulting in reduced operational cost and deliver service efficiently. Customers were able to apply online for a range of services, including LCs, RTGS, loans, and guarantees. Accelerating the process further, we simplified the complex documentation system which was a legacy of our pre-digitisation era and Anti Money Laundering (AML) screenings online. To accommodate the increased traffic, we expanded operations of our Remittances unit, since our export customers increasingly opting for transactions through TT. The International Banking Division remained accessible beyond regular business hours and facilitated the delivery of goods to support both exporters and importers, based on copies of documents and keep opened throughout the day.

PERFORMANCE HIGHLIGHTS

	2022 LKR Mn.	2021 LKR Mn.
Letters of credit	188,432	328,452
Import bills	344,833	393,344
Shipping guarantees	34,251	45,175
Bank guarantees	207,249	20,521
Export bills	10,849	21,552
Short term advance – Export	9,360	8,674
Short term advance – Import	181,637	87,065
Block loan	46,917	45,519

During the year 2022, International Banking Division has accommodated 20,796 numbers of Trade facilities (Trade products) with the value of LKR 1,483 Bn. Import related products have shown a decline compared to 2021 due to the sharp depreciation of the Rupee and restrictions and suspensions placed on the importation of goods with an acute shortage of foreign currencies. Offshore Banking Unit has accommodated only USD 596 Mn. worth of transactions in 2022 compared to USD 1,387 Mn. in 2021.

Despite the challenging environment during the year as evidenced by decline in imports and remittances and sharp depreciation of Rupee against major currencies, International Banking Division has registered a substantial increase in both interest and fee income despite the constraints. We were able to facilitate the importation of Fuel and Coal, value of which exceeded USD 900 Mn. and also facilitated over 200 import transactions with value of USD 13 Mn. under Indian Credit Line. Demand for issuance of Guarantees, Foreign Currency Loans has increased but decline reported in import financing. However, over USD 1.0 Bn. import related trade transactions has been executed during the period under review.

To reduce operational expenses, the International Banking Division leveraged digital platforms and implemented a programme of sustainable practices to limit resource usage which saved substantial cost.

Training and development of staff members remains as an ongoing process to maintain the required levels of knowledge and quality standards. Due to the prevailing conditions, much of the training was conducted online in 2022, particularly for staff in outlying branches. We intend to introduce a series of E-Learning modules through our HR department to improve effectiveness of staff. In addition, we extended training programmes with our expertise to selected SOEs with the aim of providing awareness on international trade to their staff.

In recognition of the Quality Management system in the service process and delivery, while ensuring safety and efficiency of import and export services offered by us, we were able to obtain recertification (ISO 9001:2015) once again for the consecutive 3rd time from Sri Lanka Standards Institute which initiatively obtained in 2013. This re-certification witnessed the continuation of the service quality of the service extended by Trade Services nearly one decade.

FUTURE OUTLOOK

Focusing on the future, the International Banking Division plans to expand its market share by shifting its emphasis more towards export customers and implementing sustained marketing efforts. To achieve this, the Division will rely heavily on digital platforms and tools to reduce costs and increase efficiency. We have state-of-the-art systems in place and intend to utilise them effectively to achieve our 2023 goals and beyond.

MANUFACTURED CAPITAL

Manufactured capital refers to the portfolio of tangible assets possessed by the Bank, including amongst others its physical infrastructure that facilitates the provision of services to our clients. Despite the advancements in IT and digitalisation, the importance of physical locations remains relevant, especially in a country where a majority of the population resides in rural areas. In this regard, our footprint encompasses an extensive network of branches, Service Centres, Self-Banking Units (SBU), Automated Teller Machines (ATMs), Cash Deposit Machines (CDMs), and other facilities used for interaction with customers. This also involves the digital infrastructure that has enhanced our outreach capabilities even further.

OUR APPROACH

Our approach to banking services has been consistently centred on accessibility and affordability, which are amongst the primary advantages of People's Bank, given our widespread geographical reach. This has also been a significant factor contributing to the close relationship shared with our clients. Our extensive branch network, which is the largest in the country, combined with the highest number of SBUs, has been pivotal in the growth of our business and acquisition of new accounts. Additionally, our continuous efforts to improve service standards and introduce innovative digital assets has enabled us to maintain our leadership role in offering modern banking services throughout the country.

KEY HIGHLIGHTS

- Largest network of **745 branches and service centers**
- Largest network of **289 Self-Banking Units**
- Customer portfolio covers **over 65%** of the population
- **Green buildings –** Ongoing transition towards renewable energy

MANUFACTURED CAPITAL

MATERIAL THEMES

- Digital leadership
- Customer access

CHALLENGES

- Macroeconomic slow down
- High inflation and stagnant income levels
- Political turbulence and uncertainty
- Transportation/logistics issues
- Foreign currency shortage

OPPORTUNITIES

- Acceleration of digital solutions to improve efficiency and reduce costs

CONTRIBUTION TO UN SDGs

Affordable and Clean Energy

Building green branches and converting existing branches to solar power, reducing the use of fossil fuels.

Reduced inequalities

Through our customer touch points throughout the island, we make our products and services accessible to people from all walks of life.

Decent Work and Economic Growth

Ensure safe and satisfying work for all employees, which is well remunerated.

Responsible Consumption and Production

Through digitalisation, we eliminate use of paper as far as possible both in banking services and procurement.

Industry, Innovation and Infrastructure

Increase efficiency in use of resources and sustainability through technological upgrading, digitalisation, and process improvements.

Climate Action

Safeguard the future of the planet by minimising use of resources and reducing environmental pollution.

MANUFACTURED CAPITAL

VALUE CREATED

SBUs and ATMs

LKR 1,703.4 Bn. with over
101 million transactions

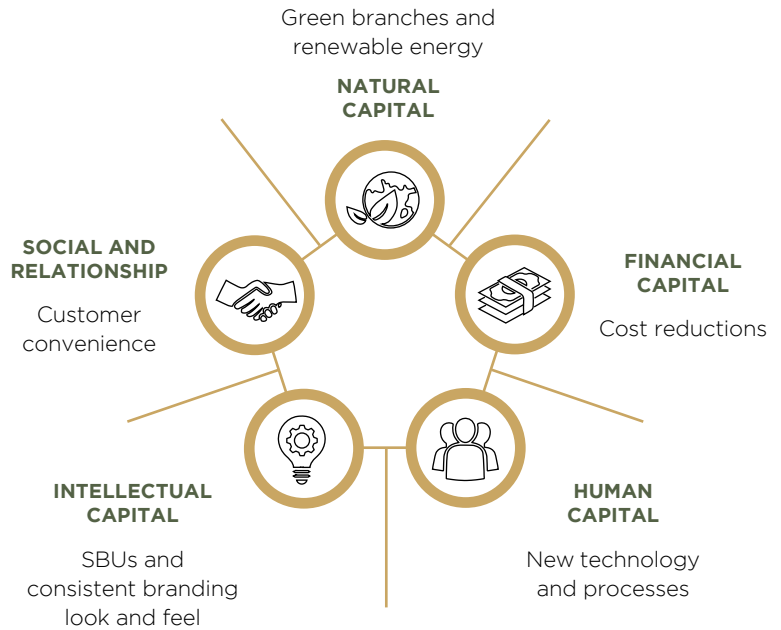
Digital Apps

LKR 392.6 Bn. with over
75.3 million transactions

Accounts and Loans

Close to 1 million accounts opened
LKR 52.2 Bn. Loans granted digitally

CAPITAL LINKAGES

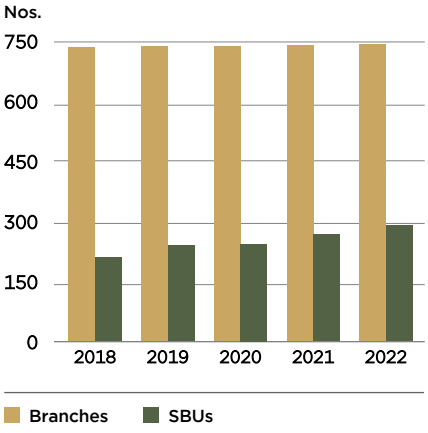


REACHING OUR CUSTOMERS

745 Branches	**822** ATMs	**319** CDMs
289 SBUs	**14.7** million Customers	**1.57** million Digital App users
126 KIOSKs	**100** CRMs	**50** SCDMs

Due to the Bank's focus on serving rural and underprivileged communities, we have established an extensive network of branches and facilities over time.

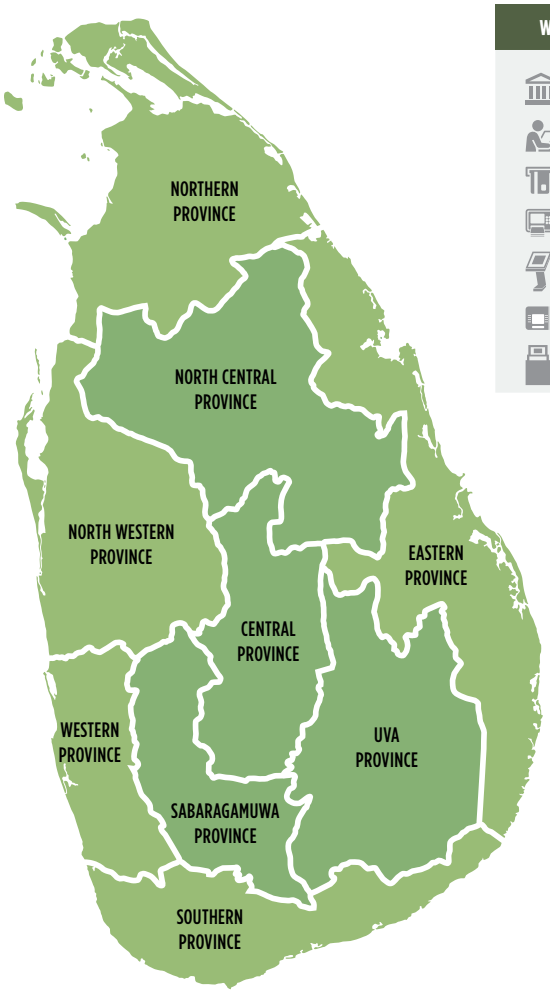
NUMBER OF BRANCHES AND SBUS



GEOGRAPHICAL DISTRIBUTION OF BANKING NETWORK/ CUSTOMER TOUCHPOINTS

The Bank conducts its business operations entirely within Sri Lanka. As indicated in the map below the Bank's network covers all provinces in Sri Lanka.

The Bank serves all sectors of the economy; agriculture, industry, and services. Our clients include retail, corporate, and SME customers.



WESTERN	NORTH WESTERN	NORTH CENTRAL	EASTERN	NORTHERN
218	75	54	61	49
107	23	21	19	14
252	76	59	61	50
123	27	23	20	14
50	13	6	7	6
51	8	5	4	2
21	3	3	3	2

SOUTHERN	SABARAGAMUWA	UVA	CENTRAL
87	56	49	96
31	18	18	38
99	60	58	107
32	21	18	41
14	8	6	16
8	6	4	12
4	4	2	8

Branches SBUs ATMs CDMs KIOSKs CRMs SCDMs

INFRASTRUCTURE DEVELOPMENT

The construction of the Bank's new Head Office building, which comprises 23 floors and 3 basement levels, has made satisfactory progress despite facing obstacles. However, due to the escalation of costs and import restrictions, the construction of new branch buildings and the renovation of existing ones have been put on hold until economic conditions improve. As at the end of 2022, construction work on the Head Office was 21.3% completed at a cost of LKR 2,204.23 Mn. which is inclusive of consultancy, piling, and work on the main building. A cost of LKR 211.29 Mn. was incurred on branch renovation. In addition, expenses of LKR 1,142.3 Mn. were incurred to acquire and upgrade property, plant, and equipment in 2022. This is inclusive of freehold land, buildings, furniture, machinery, equipment, and computers, all of which are productive assets that resulted in additional value generated for the Bank. In accordance with the Bank's commitment to sustainability, all renovation, replacement, and new construction projects, including the Head Office building, are being carried out with environment-friendly, sustainability principles in mind. The Bank is currently in the process of "greening" all its buildings by installing solar panels and replacing fluorescent lighting with LED bulbs as part of the renovations. Solar energy will be utilised to supplement the conventional grid electricity in all new buildings. Presently, 20 branches are powered with solar energy, and this number is expected to increase to 80 towards the end of 2023.

DIGITAL TRANSFORMATION

The Bank's digital transformation is progressing according to plan and has retained its momentum despite logistical difficulties, import restrictions, and cost escalations at the beginning of the year. We have initiated the process of onboarding new customers online, utilising eKYC and video KYC in compliance with the guidelines of the Central Bank of Sri Lanka (CBSL). The ability to open accounts online, without requiring customers to visit the branch in person, has been particularly advantageous during periods of limited transportation. This initiative helped reduce queues and congestion at the branches and allowed our staff to devote more time to financial advisory services, rather than routine transactions. A total of 525,501 new customers were onboarded digitally during the year, and we intend to introduce additional online services next year.

Our digital banking services have continued to help us increase our market penetration, reaching out to hitherto untapped segments. The Bank's digital infrastructure is robust and scalable, as evidenced by our ability to process over 200,000 transactions on a daily basis. During the period of travel restrictions, our mobile banking and palmtop banking teams were able to reach remote locations and provide banking services to customers residing in rural and suburban areas, where mobility was curtailed.

CUSTOMER ACCESSIBILITY

An important milestone achieved during the year was the establishment of a Contact Centre, which will complement our existing Call Centre. The Contact Centre, which was initially conceived as a call centre, will be extended to link with our website and app in the near future. This state-of-the-art facility offers a seamless customer experience where they can access financial information with ease. Customers will first be connected to an intelligent chatbot driven by an AI engine, equipped with a comprehensive Q&A database to address standard queries. In the event that the chatbot is unable to address the inquiry, the call will be seamlessly diverted to the Contact Centre where a human operator will provide expert assistance, ensuring our customers receive a prompt and effective resolution to their queries

FUTURE OUTLOOK

We remain steadfast in our commitment to retaining our leadership position in digital banking services in the country. As we embark on the development of our infrastructure, we recognise the need to prioritise digitisation as part of this process. Such a focused approach is vital to ensure that we remain at the forefront of innovation and continue to provide our customers with the most cutting-edge and convenient banking solutions. Aligned with this objective, we are poised to introduce a series of new initiatives in the coming years to strengthen our position of leadership in the digital banking landscape.

	2022 LKR '000	2021 LKR '000
Freehold land	64,000	–
Freehold building	18,818	183,257
Buildings on leasehold land	175,087	1,328
Furniture	70,027	43,582
Machinery, equipment and self banking units	355,512	237,557
Computer	458,832	660,929
Additions to property, plant and equipment	1,142,275	1,126,653

INTELLECTUAL CAPITAL

Intellectual capital consists of the Bank's intangible properties, including all stored knowledge, expertise acquired by staff members, tacit knowledge, intellectual property, branding and image related properties, processes, staff training activities, and customer trust and loyalty. It also includes culture, ethics, innovative capabilities. Knowledge, expertise, and innovativeness are a source of competitive advantage, which enables us to stand out in the industry.

OUR APPROACH

In view of the economic pressures, political turmoil and restrictions on the Bank's promotional activities at the beginning of the year we decided to take a more empathetic route to reach the hearts and minds of the people. Our strategy was to keep the People's Bank in top of mind awareness by conducting a series of activities, supporting the community in areas where the need was greatest. We created a new umbrella brand for all our CSR activities, *Mahajana Mehewara*, and launched a programme of community service activities islandwide.

Public service activities can keep the brand alive, but to attract new customers it is vital that we maintain excellent service. In order to measure our performance in this regard we conducted extensive research during the year, to gain valuable customer insights, and increase our performance levels.

KEY HIGHLIGHTS

- **26 awards** and accolades won in 2022
- **Over 90% customer** satisfaction
- Brand equity index of **4.0** (Brand Finance)
- Fitch Rating of **A(lka)**
- Doubled market share in **foreign inward worker remittances**
- **99.0%** uptime across digital platforms

INTELLECTUAL CAPITAL

MATERIAL THEMES

- Customer experience
- Operational efficiency
- Digital leadership
- Socio-economic impact
- Environmental impact
- Brand equity

CHALLENGES

- Customer mindset was not conducive to conventional sales pitches due to economic conditions
- Foreign remittances through banks had slowed down due to the exchange rate differences and incentives from unofficial channels
- Business opportunities were stifled by the economic conditions

OPPORTUNITIES

- Win the trust and confidence of customers and the public through community service projects
- Strive for service excellence to appeal to new customer segments

CONTRIBUTION TO UN SDGs

Industry, innovation, and infrastructure

Investments in digitalisation and enhancements to systems and procedures in the long term have a positive impact on industry, innovation, and infrastructure.

Responsible consumption and production

Upgrading of systems and processes promotes operational efficiency and conservation of power, water, and other resources.

Peace, justice, and strong institutions

Building an ethical and non-discriminatory organisation through robust governance and compliance framework.

VALUE CREATED

Customer satisfaction

Over 90%

Created two new brands to cater to lucrative customer segments:

- Elegance – for high net worth individual customers
- Excelsior – for high value professional salary earners

CAPITAL LINKAGES

Moving towards paperless processes both externally with customers and for internal administration

NATURAL CAPITAL

SOCIAL AND RELATIONSHIP CAPITAL

Growth of customer loyalty and participation through effective communication

FINANCIAL CAPITAL

Accessing lucrative market segments through new branding strategies and increasing efficiency through digitalisation

MANUFACTURED CAPITAL

Continued growth of digitalisation

HUMAN CAPITAL

Resumption and enhancement of training activities that were affected by the restrictions at the beginning of the year, and moving towards e-learning programmes to supplement conventional regional on-the-job training

BRAND ACTIVITY

People's Bank has been providing a wide variety of financial services to customers for over 61 years via a largely homogeneous approach where regardless of the specific customer segment, the product offerings have been uniform. However, with developments in the rest of the industry we have had to reconsider this approach. We introduced the Elegance Centres where we delivered the same product offerings to high net worth customers through a more exclusive service. This strategy seeks to create customer loyalty at the higher end of the market and among a profitable customer segment. In the evolving context, it was important to create well defined product offerings to fulfil specific requirements of identified market segments, retain existing customers as well as to attract emerging customers.

As a part of our ongoing market research, we conducted two mystery customer service surveys, one perception and attitude survey and one net promoter score survey. These test results are tied to the KPIs of the relevant Branch and Regional Managers to ensure their buy-in, and achieve high performance levels.

We introduced two product offerings for the high-end customer segment and plan to target them, as well as our traditional customers, through mass media and digital communications in order to capture market share. This approach will enable the Bank to achieve the following goals.

- To retain and enhance the strength of the relationship with the existing customers
- To grow the high value deposit relationship customer base
- To successfully cross sell other products of the Bank

This year we took a further step in strengthening our branding in our vast branch network. We have modernised and standardised the visual branding elements and physical characteristics of every branch in the network to adhere to a consistent look and feel, so that customers know what to expect, and will be familiar and comfortable when they walk into any People's Bank branch in the country.

As part of the brand upgrade we have launched a new website in three languages, to meet the needs of our wide range of customers, with information and instructions on access to digital banking in addition to the regular features. We have also designed and launched a uniform for staff, which is voluntary at present, but we are confident that it will be adopted as time goes on.

BRAND PERFORMANCE

Our brand performance has continued to improve across a number of key performance indicators in 2022:

Brand performance	2022	2021
Brand equity	4.0	3.8
Top of mind awareness (%)	36	36
Customer satisfaction (%)	91	90

In 2021, brand rating of the Bank was AAA- with a brand strength of 80.9 and a brand value of LKR 44.75 Bn.

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. Our culture facilitates serving customers from all walks of life, catering to their different needs. We promote open communication and transparency among all internal stakeholders, and place greater emphasis on accountability on a 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. This process of documentation is essentially one of converting tacit knowledge to explicit knowledge.

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 97.6% showcases our success in fostering a stimulating workplace where hard-to-find and hard-to-retain talent feel included, respected and inspired. It also reinforces our organisational knowledge base. A number of key recruitments at Executive level and Corporate Management including Senior Project Manager, Product Manager – Card Business and Chief Information Officer (CIO) were successfully completed during the year under review, adding to our collective organisational knowledge.

Qualification	Number of employees
MSc/MBA/Postgraduate	622
BA/BSc	1,645
CIMA/CFA/CMA/CA Sri Lanka/Banking	1,800
Qualifications in Law	89
Qualifications in IT	306
Diplomas and other	4,240
Total	8,702

To save any doubt, included those with multiple qualifications.

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 practised 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 are reflected in our ratings. Please refer to page 170 for our comprehensive governance framework. During the year under review, the Financial Intelligence Unit of CBSL imposed a fine of LKR 2 Mn. on the Bank due to operational lapses in identifying two customers in the years 2007 and 2016. Following this, the Bank has taken initiatives to further strengthen the operational controls. The Bank has complied with all the other laws and regulations except for the above FIU fine.

INNOVATION

What differentiates People's Bank from our competitors 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. This led us to pioneer Sri Lanka's first ever Innovation Centre, thereby strengthening 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.

DIGITALISATION

People's Bank commenced an ambitious digitalisation initiative in 2015, investing in and adopting digital capabilities to elevate the Bank's products and services to global industry benchmarks and meet the expectations of the next generation of banking customers. This pre-pandemic far-sightedness has today afforded People's Bank the brand reputation of being 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 has been reflected in our revenue per employee which has increased from LKR 27.4 Mn. in 2021 to LKR 48.4 Mn. in 2022. Over 73% 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 from LKR 601.3 Bn. in 2021 to LKR 804.43 Bn. in 2022.

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.

There were three key milestones achieved during the year:

- The digital onboarding of customers was introduced, in adherence to Central Bank guidelines, using e-KYC and v-KYC (video KYC) for verification. This enabled us to open accounts online for any customer within the country or overseas, if they were holders of a National Identity Card (NIC). The customer is able to upload the required personal details, photograph, and copies of his NIC and required documents, and request a time slot for the video call with a Bank agent for a verification interview. The Bank has an interface with the Registration of Persons Department to check the customer's recorded information with his or her account opening application. Thereafter the video call verification is completed and the account is opened.
- The facility to download an i-Report from the Credit Information Bureau (CRIB) was made available through the People's Pay App.
- A comprehensive Customer Relationship Management System was introduced, to cater to the needs and wants of each individual customer, to enable the Bank to provide a more personalised, high quality service and thus gain market share.

In the future we hope to integrate the use of biometric information through our apps, and introduce Real Time Gross Settlement (RTGS) implementation.

Our physical account opening process at the branch is also done without the use of paper documentation, and the process can be completed within 6-8 minutes if all the information is available. The process is designed so that we can also cross-sell any related features or services to the customer at

the same time just by the Bank officer ticking a few boxes. During the past year 90% of our new customers are Gen Z and 70% of all transactions are performed digitally.

Awarded Best Digital Bank in Sri Lanka 2022
by the International Business Magazine

First fully digitalised branch
in Sri Lanka

First Bank IT innovation centre
in Sri Lanka

First Government bank in Sri Lanka
to receive the highest international accreditation for information protection and security – the ISO/IEC 27001: 2013 Certification

People's Wave

- One of the **most downloaded** retail mobile apps in Sri Lanka
- **Over 2.1 million** downloads since launch in 2017
- Allows customers to carry out **over 50** different banking facilities remotely
- Made a significant contribution to driving financial inclusivity
- Monthly average – **nearly 50,000 downloads** and **over 1. 4 million** transactions for value of **LKR 28.7 Bn.**

People's Wyn

- Mobile banking app **custom designed** for corporate clients
- Provides **transaction authorisation** facilities in addition to transactions
- Facilitates **corporate payments** to utility providers
- **76,000** downloads since launch in 2018.

People's Web – Retail

- Provides a number of retail banking features in addition to all options available in People's Wave
- **Over 1.4 million** customers registered at year end
- **Nearly 88,000** transactions executed monthly for the value of LKR 5.6 Bn.

People's Web – Corporate

- Offers a number of corporate banking features in addition to those available in People's Wyn
- **9,716 customers** with **16,358** active users
- Average of **21,000** transactions processed per month to a value of **nearly LKR 31 Bn.**
- Allows transfer of funds between banks via LankaPay, SLIPS, and RTGS
- Facilitates paperless trade finance transactions and payments to utilities

People's Wiz

- **First ever** real-time digital customer onboarding banking application in Southeast Asia, Africa, and the Middle East
- **Paperless** process facilitating opening accounts with multiple services and features
- **Time-and-cost savings** achieved during COVID-19 pandemic with remote access to banking services
- **Significant** drop in paper usage contributing to Green Banking Vision
- **2.7 million** customers onboarded since launch in July 2017

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

- **Advanced** retail loans processing system replacing manual system
- **End-to-end** process from application to post-disbursement
- Personal loans processed **within hours** of initial request
- Rolled out to **300 branches** by end 2022

People's Wiz Credit – Corporate Loan Origination System (CLOS)

- **End-to-end** digitised business loan origination system
- Handles single credit facilities and credit packages, with **multiple** product types and for a **range** of businesses
- Rolled out to **82** branches by end 2022

People's Pay – Wallet App

- V2.0 launched in October 2021 with enhanced tri-language user friendly interface
- Biometrics and self-registration also included
- Partnered with utility service providers to provide customer with due payment amounts online in real time

People's Pay – Merchant Module

- Encourages small businesses to transition to real time
- Facilitates fast, secure, and low-fee digital payment to SMEs
- By end 2022, over 52,000 merchants registered

People's Pay – Remotely onboarding module

- Non-face-to-face digital customer identification and verification process introduced by People's Pay App
- Customers can digitally onboard from anywhere in the world

AWARDS

World Top 1000 Banks – The Banker Magazine

- People's Bank ranked amongst the prestigious World's Top 1000 Banks

International ARC Awards 2022

- Gold for Written Text: Banks: National
- Gold for Financial Data: Banks: National
- Bronze for Cover Photo/Design: Banks: National

LankaPay Technnovation Awards

- Gold award for "Best Mobile Application" for Retail Payments via LankaQR (Banks and Non-Bank)
- Financial Institution-People's pay mobile banking app

Global Banking and Finance Review

- Best Investment Bank 2022 – Sri Lanka

- Honours – Specialised A.R: Integrated AR and CSR: Non-Traditional Format

South Asian Federation of Accountants (SAFA) Awards

- People's Bank 2021 Annual Report – Joint Bronze in the Public Sector Bank category

CMA Excellence in Integrated Reporting Awards 2022

- People's Bank 2021 Annual Report as one of the top ten Best Integrated Annual Reports

TAGS Awards 2022 – CA Sri Lanka

- Bronze award in State Bank Category: being the only public sector bank in Sri Lanka to be podium

Satynmag CIMA Women-Friendly Workplace Awards (WFWP Awards) 2022

- One of Sri Lanka's most outstanding workplaces for women

The Asian Digital Finance Forum and Awards

- Best Mobile Electronic Payment Initiative – People's Wave Mobile Banking App

Best Management Practices

- Institute of Chartered Professional Managers of Sri Lanka

International Business Magazine

- Best Digital Bank Sri Lanka 2022

The Bizz Hybrid Awards 2022

- Business Excellence Award

Global Business Review Magazine Awards 2022

- Most Responsive Bank Sri Lanka 2022
- Most Consumer Digital Bank Sri Lanka 2022
- Best Development Bank Sri Lanka 2022

Payment Partner Performance Awards 2022 – Daraz

- Best Turn Around Bank
- Best Debit Card Growth

We are proud to be recognised for our performance with awards, accolades, and accreditations that recognise 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:

Digital customers increased to **2.7 million** islandwide

Over 73% of the Bank's conventional banking transactions conducted from **digital channels**

Nearly 50,000 monthly average downloads of the **People's Wave app**

Over 1.4 million financial transactions conducted monthly on the **People's Wave app**

Digital deposits exceeded LKR 551.9 Bn. as end December 2022

Average of **LKR 45.9 Bn. digital deposits** monthly

People's Wiz Retail Loan Origination System launched in 300 branches

More than **52,000 merchants** are registered with **People's Bank QR Payment Facility**

FUTURE OUTLOOK

The Bank will actively pursue the younger segment of customers, the Millennials and Gen Z, where the future potential lies. They have grown up with the digital revolution, are totally comfortable in cyberspace, and will be a natural fit for the future of People's Bank.

We recognise the fact that our strength historically has been accessibility and affordability, due our vast branch network and comparatively low rates, but in the present conditions and in the future it will be our service excellence and technological superiority that will set us apart.

HUMAN CAPITAL

Our Human Capital embodies the personality of the organisation, in its role as the Bank that has traditionally been close to the hearts of the ordinary man. Although this personality is changing in keeping with the times, and the shifting demographics of our customers, our people are definitely our greatest asset. People's Bank ranks among the largest banks in Sri Lanka and has a workforce of 7,377 from backgrounds, originating from all parts of the island. As a major state bank, it plays a key role from diverse backgrounds covering all parts of the island in the lives and the livelihoods of its customers.

2022 was a challenging year coming right after the COVID-19 pandemic, and the Bank had to face macroeconomic pressures, political turmoil, and high inflation. However our staff pulled together proving that talent, training, and teamwork are among our key strengths, to deliver the full range of essential services to our customers and the government in their hour of need, without interruption.

OUR APPROACH

Our staff have been the linchpin of our success in the recent past, and this year too we made certain to build on that same sense of trust and commitment by giving them all the support required to achieve our goals. During the COVID-19 period the Bank provided transportation along the major routes for employees to get to work, provided the facility for staff that possessed their own vehicles to claim transport allowance, and arranged work from home systems for staff who could work efficiently from home.

The market conditions accelerated the move to online banking transactions. Our younger recruits adapted quickly to the digital workspace, and we conducted training sessions for some of our older staff members to get to grips with the online medium, and empower them with the knowledge to play a leadership role with their younger team members.

The Human Resource functional restructuring process commenced last year with the purchase of the new software, and implementation continued this year and will continue in 2023. By 2024 the entire HR system will be available online for any staff member to interact with it.

In addition to the above, we have a Bankwide initiative to create a mindset shift in the organisation as a whole. The aim is to change the culture of our personnel, and transform the Bank into a future ready 21st century organisation. The project is coordinated by the HR department and will be implemented throughout all sectors of the Bank.

HUMAN CAPITAL

KEY HIGHLIGHTS

Total employees: **7377**	Male: **2835**	Female: **4542**	Retention rate: **97.6%**
Profit per employee: **LKR 2.3 Mn.**	Designed, installed, and commenced the pilot phase on the new performance management system	**Over 69%** employee engagement	One of the most Women Friendly Organisations in Sri Lanka (WFWP Awards)

MATERIAL THEMES

- Employee productivity
- Talent management
- Training and development
- Anti-corruption
- Reskill employees

CHALLENGES

- Economic crisis in the first quarter of 2022 resulting in foreign exchange restrictions and fuel shortages through the rest of the year
- Transport issues affected staff attendance, necessitating special transport arrangements by the Bank
- Constraints in working from home as the infrastructure did not exist for a majority of personnel, and impractical for many of the Bank's functions
- Delays and disruption in training programmes due to foreign exchange and travel restrictions
- The older Gen X managers need training in the digitalised workflow systems to enable them to give leadership to new Gen Z recruits
- Increase in migration of skilled staff

OPPORTUNITIES

- Shift to online training modules where possible
- Build teamwork within the departments to ensure that work progressed on schedule
- New deployments at the internship level

CONTRIBUTION TO UN SDGs

No poverty

Poverty alleviation through creation of employment opportunities

Quality Education

Staff training at all levels at state-of-the-art facilities, and plans for Learning Academy

Reduced Inequalities

Recruitment of all socio-economic categories and genders based on competitive examinations and interviews

Good Health and Well-being

Post-pandemic action to ensure health and safety of all employees

Decent Work and Economic Growth

Largest employer in banking category with excellent staff benefits

VALUE CREATED

LKR 26.6 Bn. allocated as staff benefits

33 members of the staff were promoted during the year

CAPITAL LINKAGES

Staff members participate in sustainable practices such as the distribution of seedlings for tree planting campaigns islandwide and minimising the use of paper

Employees who work in the green branches will engage in sustainable resource usage and power saving activities as a regular work day routine

NATURAL CAPITAL

SOCIAL AND RELATIONSHIP CAPITAL

Our employees develop their own skills by the exposure they get to customer relationship management, supply chain management, and CSR projects, which leads to greater job satisfaction and employee retention

FINANCIAL CAPITAL

Contribution of employees to the revenue growth of the Bank

Cost saving initiatives by staff to reduce consumption of power and other resources

MANUFACTURED CAPITAL

The new HR function restructuring system will contribute significantly to Manufactured Capital.

INTELLECTUAL CAPITAL

The updated training modules that are currently being implemented will enhance the Intellectual capital of the Bank

OUR TEAM

We concluded the year with 7,377 employees, and our retention rate of 97.6% proves that we have a loyal and cohesive team that has bonded through adversity. Our workforce consists of members of all ethnicities and religious persuasions from all over the island.

We have set new targets and achieved them despite the challenges we encountered in the first half of the year. To achieve this, certain staff members had to take the load for some of their colleagues, including who could not report to office. During that period we saw a great collective effort and team spirit, to ensure work was completed in a timely and efficient manner. Once again we were able to operate almost all our branches daily, while encouraging customers to use the available digital channels as much as possible.

Workers who are not permanent employees of the Bank are the University selectees and outsourced security personnel. Bank provide internships to university students who are in their final year of the degree. These segments have also been very supportive and involving throughout the years.

All of our employees are on full time basis.

Our human resource statistics

Male employees		Female employees		Total employees		Profit per employee LKR '000		Revenue per employee LKR '000	
2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
3,184	3,058	4,909	4,778	8,093	7,836	2,112	1,650	22,400	25,489
2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
2,979	2,931	4,713	4,637	7,692	7,568	1,843	3,134	24,829	27,385
2022		2022		2022		2022		2022	
2,835		4542		7,377		2,330		48,425	

Total employees by gender

Male
38.4%

Female
61.6%

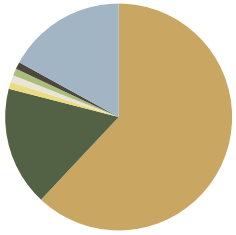
Total workforce by employment contract and gender

	2022			2021		
	Male	Female	Total	Male	Female	Total
Permanent staff	2,814	4,530	7,344	2,896	4,625	7,521
Contract staff	21	12	33	35	12	47

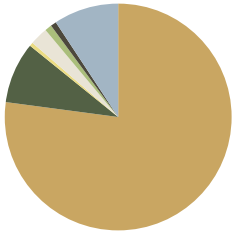
Total permanent workforce by employment category and gender

	2022					2021				
	Male Nos.	Female Nos.	Total Nos.	Male %	Female %	Male Nos.	Female Nos.	Total Nos.	Male %	Female %
Corporate management	9	7	16	0.12	0.09	10	7	17	0.13	0.09
Executive management	20	12	32	0.27	0.16	21	14	35	0.28	0.18
Officers (3-III – Grade 1)	1,340	2,444	3,783	18.16	33.13	1,387	2,510	3,897	18.33	33.17
Staff assistant grade	606	1,541	2,147	8.21	20.89	605	1,499	2,104	7.99	19.81
Other categories	853	536	1,389	11.56	7.27	894	603	1,497	11.81	7.97
Management trainees	–	–	–	–	–	–	–	–	–	–
Customer service assistants	–	–	–	–	–	–	–	–	–	–
Other contracted employees	7	2	9	0.09	0.03	14	4	18	0.18	0.05
Total	2,835	4,542	7,377	38.43	61.57	2,931	4,637	7,568	38.73	61.27

TOTAL WORKFORCE – DEPARTMENT-WISE



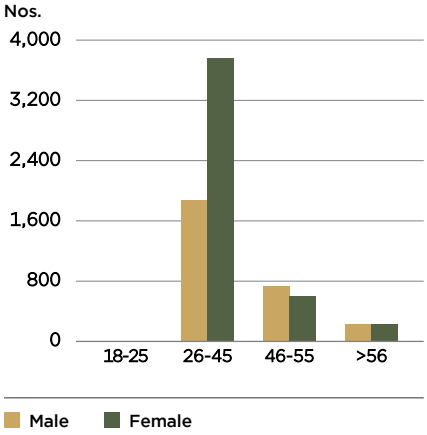
Male



Female

	Male	Female
Branches	62.4%	77.1%
Regional Head Office	17.1%	8.7%
Treasury and PDU	0.4%	0.5%
Corporate and OSBU	1.4%	2.6%
Overseas Customer Services	1.0%	1.0%
Card Centre	1.0%	0.8%
Head Office	16.6%	9.3%

TOTAL EMPLOYEES BY AGE AND GENDER



All of the senior management were hired from the local community.

Total workforce by geographic distribution and gender

Province	Male	Female	Total Nos.	Total %
Western	1,036	1,879	2,915	40
Southern	264	498	762	10
Central	285	468	753	10
North Western	218	384	602	8
Uva	187	236	423	6
Northern	168	195	363	5
Sabaragamuwa	191	321	512	7
Eastern	275	276	551	7
North Central	211	285	496	7
Total	2,835	4,542	7,377	100

Total permanent employees by employment type, gender and age group

Years	Corporate management		Executive management		Officers (3-III – Gr I)		Staff assistant grades		Management trainees		Customer service assistants		Other categories		Other contracted employees	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
18-25																
26-45	1				832	1,833	547	1,531					492	394		
46-55	3	2	16	11	407	479	50	9					284	99	6	2
Above 56	5	5	4	1	101	132	9	1					77	43	1	
Total	9	7	20	12	1,340	2,444	606	1,541	–	–	–	–	853	536	7	2

Total employees by employment category and years of service

Category	<2	3-10	11-20	21-30	31-35	>36	Total
Corporate management	–	–	1	6	4	2	13
Executive management	–	–	11	8	7	1	27
Officers (3-III-Grade I)	11	341	1,979	1,071	376	6	3,784
Staff assistant grade	–	1,109	958	66	14		2,147
Other categories	–	1,037	21	287	42	2	1,389
Corporate management – contract	2	1	–	–	–	–	3
Executive management – contract	5	–	–	–	–	–	5
Management trainees	–	–	–	–	–	–	–
Customer service assistants	–	–	–	–	–	–	–
Other contracted employees	2	7	–	–	–	–	9
Total	20	2,495	2,970	1,438	443	11	7,377

OUR PROCESSES

The automation of HR administration activities has commenced, but 80% of the work is still done manually, and our aim is to make the processes totally digitalised in the near future. Online training began in 2021 and will be developed further, with the introduction of the e-Learning programmes. However, we have found that though online training is effective for technical skills, it is less effective for soft skills. With the conditions improving, we hope to be able to conduct such training face-to-face in the future. Online interviews have become common for new hires and promotions, especially when the candidate is unwell, overseas, or otherwise incapable of visiting the office on that day.

The payroll is partially automated, including overtime calculations, leave management, and other administrative functions. In the future, such functions will be directly linked to the core system and we will have the ability to run them without any human intervention.

RECRUITMENT

There was a delay of more than a year in entry level recruitment of Customer Service Assistants and Management Trainees as these are done through competitive entrance examinations, conducted by the Examinations Department, and their schedules were pushed back due to the COVID-19 pandemic.

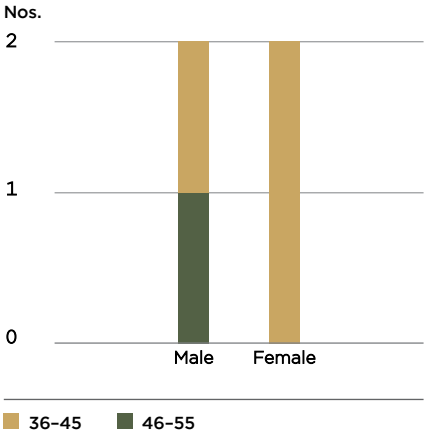
However, during the year, we were able to complete the examinations for Management Trainees in May and Customer Service Assistants in October, and proceed with the recruitment process. We still have a shortage of these grades, but the situation will ease as these new recruits enter the workforce.

We also observed a drain of IT staff due to the offers of high salaries for such trained personnel from local and foreign companies. As our pay scales are fixed according to collective agreements, we are unable to increase salaries to be on a par with those prevailing in the private sector. However, with the new HR system, we hope to devise a method of revising pay scales for contract staff so as to retain skilled staff. In the interim we will work with new recruits working in teams with experienced staffers to ensure smooth workflows in all sectors as required.

New Recruitment by age group and gender

All recruitments are for the Head office.

NEW RECRUITMENT BY AGE GROUP AND GENDER



TRAINING AND DEVELOPMENT

In 2022, employee training was conducted on both soft skills and technical expertise. In 2023, the focus is expected to shift more towards soft skills. An Executive Development programme was also commenced with an external consultant focusing on the development of analytical and conceptual skills of Executive Management. Due to the economic conditions that prevailed in the country, in-person training was somewhat curtailed and training programmes for several months were conducted online. However, the Staff Training College was able to provide an average of 24 training hours per permanent employee during 2022.

The main focus of staff training has been on achieving the goals of the Bank aligned with the new Strategic Initiatives for the years 2022-2024 mapped to the strategic pillars of Driving Excellence, Building Customer Centricity, and Being Future Ready. Accordingly, the training objectives are aligned with the Bank's strategic initiatives, employees' performance evaluation criteria, and the country's macro environment and identified employees' training needs.

Future training programmes and activities are planned in order to achieve new goals, and will concentrate on the following areas covering both soft and conceptual skills:

- Attitude development and motivation for customer service excellence
- Customer centric mindset, complaint management, and negotiation skills development
- Personality development, personal grooming, social and corporate etiquette
- Stress management and counselling skills
- Strategic planning
- Technical skills development programmes (mainly focusing on improving knowledge of products which include digital, credit, pawning, treasury and foreign currency products and improving knowledge on audit, compliance, risk management, and lean management for officer grade employees)
- Training programmes for newly recruited Management Trainees
- Executive Development Programme (special training series for senior management/higher officers on soft skills development)

However in the future we will introduce e-learning systems where the results of the training will be aligned with the remuneration, promotions, and other benefits, which will definitely improve the effectiveness of the training.

Permanent employees training statistics

Type of training	Number of programmes	Number of participants	Training hours
Internal training programmes	386	27,303	172,573
External training programmes	59	298	3,948
Foreign training programmes	2	3	56
Total	447	27,604	176,577

Employee training statistics

	2022
Training cost (LKR Mn.)	92.8
Training hours	176,577
Average training hours per permanent employee	24
Number of online training sessions	94
Number of hours on digital training	40,970

Training sessions on health and safety

	2022
BCP/DRP/occupational health and safety	252
Stress management	5
Stress management and counselling	71
Stress management, counselling, coaching, and mentoring skills for superiors	60

Training hours by employment category and gender

Employment Category	Average training hours	
	Male	Female
Corporate management	11	11
Executive management	11	20
Officers (3-III-Grade I)	35	32
Staff assistant grades	24	17
Management trainees	-	-

Training initiatives conducted

Programme and Method of Delivery	Key Objective
Attitude Development and Motivation for Customer Service Excellence (onsite – STC/Regional)	To reset the mindset of the participants to develop positive attitude and motivate participants to provide an exceptional Customer Service
Special Training Programme on Accelerating of Foreign Remittances & Deposits (Online)	To accelerate foreign remittances and streamline same
Cross Border Transactions, Export Risk Identification, and Risk Management (onsite – STC)	To make aware on trade related transactions/documents on Cross Border Transactions, Risk associated
Personal Grooming, Social and Business Etiquette (onsite – STC)	Personality development and enhance corporate brand image through employees
Residential Training Programme on Customer Service, Personality Development, Etiquette and Selling Skills Development for Excelsior Ambassador – Pasikuda Training Centre	To develop team working skills, selling skills communication skills, personal grooming and motivation of the Excelsior Ambassadors in branch network
Leadership, Team Building, Motivation and Managerial Skills Development (onsite – STC)	To develop sound leadership capabilities and team building skills of officer grade staff
Debt Recovery Procedure and Practical Aspects of Debt Recovery (onsite – STC/Regional)	To instill the importance of recovery of performing advances as well as non-performing advances, and enhance the knowledge of recovery procedure.
Retail Internet Banking (RIB), Retail Mobile Banking (RMB) & People's Pay /Corporate Internet Banking (CIB) & Corporate Mobile Banking (CMB)/CLOS/RLOS – (onsite –STC/Regional)	To create basic understanding among the staff members on Digital products
Customer Centric Mindset, Complaint Management, and Negotiation Skills Development (onsite – STC)	To develop Customer Centric mindset Communication Skills and handling customer complains effectively.
Stress management and counselling Skills development (onsite –STC)	To make participants aware how stress has an impact on their work, individual performance and take possible actions to mitigate stress and how they can help their subordinates to overcome their stress.
Emerging Trends in Fraud Mitigation of Electronic Fund Transfers (online)	To create awareness of the risk associated with cyber frauds and learn about the measures that could be taken to mitigate such risks.

PERFORMANCE APPRAISAL

The current appraisal methods largely support qualitative evaluations, but not quantitative ones. Quantitative evaluations are carried out at present only for Branch Managers and above. The evaluations for the other staff are not reward aligned. This is being addressed with the new HR Restructuring System, where every employee will be evaluated quantitatively as well as qualitatively and their performance will be taken into account for future promotions, remuneration, and training. This will be the first time such a scheme has been implemented in the history of the Bank.

During the year, all our eligible permanent employees excluding contract employees engaged in performance reviews which is 99.8% of total employees in 2022 and the rest will be assessed on the renewal year of their contract.

PROMOTIONS AND TRANSFERS

A formal promotion and transfer policy of the Bank governs all promotions and transfers, which ensures transparency in the process. Promotion schemes have been established for each grade; employees are encouraged to avail themselves of promotion and transfer opportunities to broaden their skills and widen their experience. All promotions are conducted through an exam and interview process up to Senior Manager (Grade 11) level. The Board of Directors decides on promotions to Executive, Corporate Management, and other senior management positions through an interview process. Opportunities for promotions to most grades, and to senior management levels usually arise when vacancies occur. Transfers of staff can happen both within their present region and to outside regions. Any employee who is dissatisfied with a transfer directive, can appeal to the Appeal Committee established under the transfer policy.

Due to the retirement age being reduced from 62 to 60, we organised interviews and made arrangements for the appointment of new Chief Managers, AGMs, DGMs, and others to fill the vacancies that arose. A new cadre plan for the Bank was approved for the first time since 2015, and we are currently working on it.

DIVERSITY AND EQUAL OPPORTUNITY

As an island wide institution with 61.57% of female employees, this is an area of 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 of the employees were required to be at work onsite.

RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN

We have continued to maintain a ratio of 1:1 in the basic salary and remuneration of women to men by employment category and significant locations of operation. We follow a policy of complete non-discrimination and women are given equal treatment to men. However, the remuneration ratio may change owing to the different service periods of employees and their salary grade.

MATERNITY LEAVE

346 employees took maternity leave in 2022. In the past five years we have had a 100% rate of staff retention after returning from leave.

	2022	2021	2020	2019	2018
Number of employees entitled to maternity leave	4,542	4,637	4,713	4,778	4,893
Number of employees who took maternity leave	346	419	483	510	517
Number of employees who returned after maternity leave	346	419	483	510	517
Returned to work (%)	100	100	100	100	100

NON-DISCRIMINATION

We are committed to fostering an environment that safeguards employees from physical and verbal harassment and discrimination on the basis of race, religion, gender, age, or social status. The above policy ensures fair employee recruitment, reward, and recognition. All employees are assured of fair and equitable treatment when it comes to promotions. We have the highest number of female employees in the industry which showcases our non-discriminatory policy.

OCCUPATIONAL HEALTH AND SAFETY

Past few years has been fraught with conditions that have been stressful for our employees. We considered that keeping our staff safe and stress-free as far as possible was our prime responsibility. Without ensuring this, we could not hope to deliver and meet our targets. It was imperative, therefore, that we issue and implement relevant working guidelines in keeping with the health and safety concerns. We continued to make the necessary physical arrangements such as providing sanitisers and masks at all branches and operating ambulance services.

Bank has taken several actions to ensure the occupational health and safety in 2022 in order to ensure the wellbeing where there is a separate department named "Fire and Disaster Recovery" that falls under the purview of DGM (Business Support Services). Representatives covering branch network and head office departments been appointed as the coordinating points. Training sessions have been carried out at head office and regional levels with the participation of these representatives and staff. Officer in-charge is responsible for identification of hazards, risk assessment, and incident investigation. First aid rehearsals have been conducted to ensure quick actions in disaster situations. Special trainings on how to prevent and deal with office environment hazards have been carried out during the year under review.

The Bank provides occupational and health services as below;

- Annual Fire Drill in collaboration with Fire Service Department of Colombo
- Ambulance Service for staff
- Nawaloka Medical Center at Head Office
- COVID-19 precautions and booster vaccination drive
- Zumba sessions for staff wellness
- Free gym access and sports facilities

Expenses incurred in relation to health and safety in 2022

Health and safety expenditure	LKR Mn.
Medical expenses	2,370.8
Fire and safety	97.2
COVID-19 safety protocols	0.5
Total	2,468.5

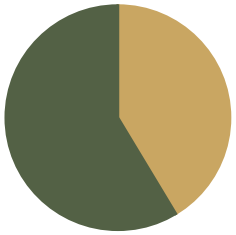
Nine work related injuries were reported and there has not been any work related ill health incidents reported in 2022.

EMPLOYEE SATISFACTION

Employee engagement represents the levels of enthusiasm and connection they have with their workplace. It's a measure of how motivated people are to put in extra effort for their workplace, and a sign of how committed they are to stay there. High level of employee engagement will improve performance, retention, and innovation.

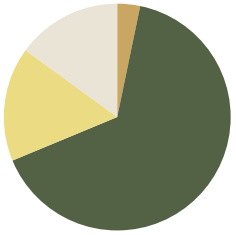
SPPMR department has conducted a survey in the year 2022 on Employee Engagement within the Bank. Questionnaire has been prepared and distributed to Regional Head Offices (RHOs) to collect information from branch staff and 307 number of completed questionnaires were collected from the branch network. Majority of the sample is Female. Most of the respondents are within the age group of 31-40 and majority of the staff members are in deputy manager grade. Percentage of Internal Customer Satisfaction on employee engagement was 69.6%.

TOTAL PARTICIPANTS



Male – 41% Female – 59%

TOTAL PARTICIPANTS BASED ON AGE GROUP



20–30 years – 3% 31–40 years – 66%
41–50 years – 16% 51–60 years – 15%

Succession planning

We continually strive to develop a new generation of leaders within the organisation. A second batch of Managers is due to commence the Management Development programme. A total of 50 Branch Managers will be enrolled in this course. With the assistance of a partner institution, an Executive Development Programme has also been scheduled, targeting Asst. General Managers and Chief Managers. This Programme has been crafted to equip them with the managerial and conceptual skills needed for future career growth.

REMUNERATION AND BENEFITS

There is no statutory minimum wage for the entry level in the banking industry. The Bank pays above the minimum entry level wage rate. Salary revisions will take place triennially where the necessary increments were carried out based on the Bank's performances, industry standards and market conditions.

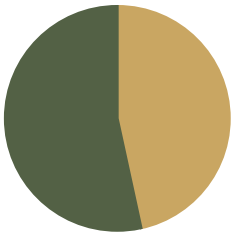
Remuneration and Benefits
Besides our policy of gender-wise non-discrimination, we also adhere to an impartial remuneration structure, offering our employees fair, competitive, and attractive packages. They include performance based rewards and other monetary and non-monetary benefits which keep our staff contented and motivated. Our employees are entitled to Gratuity, Employees' Provident Fund (EPF), and the Employees' Trust Fund (ETF) payments in line with the relevant laws and regulations. The Bank contributed LKR 1,600.89 Mn. to the ETF and LKR 400.22 Mn. to the EPF for the financial year 2022. Depending on their employment category, all permanent employees are entitled to a range of benefits. However, the contract and trainee employees are excluded from 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 accordance with statutory provisions.

Promoting Employee wellbeing and staff engagement

Employees will remain healthy and productive if their stress at work is minimised. This is the key to mitigating unauthorised absences of staff and the potential loss of income. We have introduced measures to promote a healthy work culture so that employees can lead healthy lifestyles and work to their satisfaction. Among the steps we have taken to this end are Yoga Classes and a fully equipped gymnasium. The state-of-the-art library at the Head Office gives our employees the opportunity to expand their knowledge. We also encourage

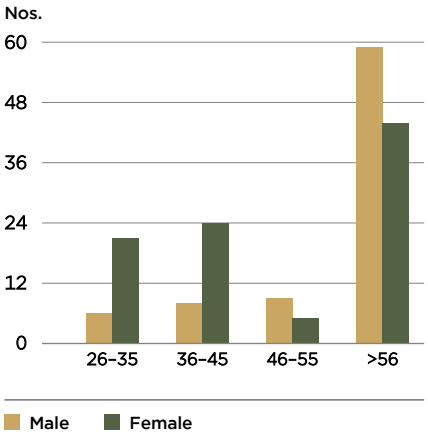
staff members to obtain higher qualifications by reimbursing exam fees on successful completion of an MBA and professional subscriptions. Opportunities are also afforded for employees to participate in staff engagement activities organised through the Bank's Sports Club, Art Club, and other such organisations.

EMPLOYEE TURNOVER BY GENDER



Male – 47% Female – 53%

EMPLOYEE TURNOVER BY AGE GROUP AND GENDER



Employee turnover by age group, gender and employment category

Years	18-25 years		26-35 years		36-45 years		46-55 years		56 years and above	
	M	F	M	F	M	F	M	F	M	F
Corporate Management									5	2
Executive Management									1	5
Officers (3 – III – Grade 1)			3	12	7	21	3	4	30	28
Staff assistants			3	9		3	2		3	
Other categories					1		4	1	20	9
Management trainees										
Customer service assistants										
Other contracted employees										
Total			6	21	8	24	9	5	59	44

Employee turnover by region and gender

	Male	Female	Total	Male (%)	Female (%)
Ampara	1		1	0.01	–
Anuradhapura	4	2	6	0.02	0.01
Badulla	1	2	3	0.01	0.01
Batticaloa		1	1	–	0.01
Colombo	6	18	24	0.03	0.10
Galle	5	6	11	0.03	0.03
Gampaha	4	7	11	0.02	0.04
Hambantota	2	1	3	0.01	0.01
Jaffna	1	4	5	0.01	0.02
Kalutara	5	3	8	0.03	0.02
Kandy	5	6	11	0.03	0.03
Kegalle	2	2	4	0.01	0.01
Kurunegala	1	3	4	0.01	0.02
Matale	1	4	5	0.01	0.02
Matara	2	3	5	0.01	0.02
Monaragala	3	1	4	0.02	0.01
Nuwara Eliya	1	1	2	0.01	0.01
Polonnaruwa	1		1	0.01	–
Puttalam	2	1	3	0.01	0.01
Ratnapura	3	1	4	0.02	0.01
Wanni	1	–	1	0.01	–
Trincomalee	–	–	0	–	–
Head Office	31	28	59	0.18	0.16
Total	82	94	176	0.47	0.53

EMPLOYEE COMMUNICATION, ETHICS AND INTEGRITY

Employee Communication

We have several channels which promote two-way communication. Through these channels the Bank engages with staff on matters that may concern them whilst staff has the ability to provide feedback and engage in constructive dialogue. These channels offer both formal and informal means of communication to ensure that interactions within the Bank are fruitful. In addition to this, team briefings and employee forums provide staff with the opportunity to contribute their thoughts and opinions on the business performance of the Bank and other issues of concern.

MINIMUM NOTICE PERIOD FOR OPERATIONAL CHANGES

Employees are provided with adequate notice of any operational changes and their possible impacts on their functions. This helps to mitigate any adverse impacts on staff morale which may occur. The minimum notice periods pertaining to operational changes are:

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

GRIEVANCE HANDLING

The Bank introduced a mechanism to handle grievances of employees under a circular "Mechanism to redress employee concerns". Thereby employees may first present complaints and grievances to the CEO/ General Manager.

Then they are reviewed by a committee consisting of members from corporate management. The CEO/General Manager redresses the concerns based on the outcome of the review. During 2022, 7 corrective action were taken for a total of 14 incidents presented.

COLLECTIVE BARGAINING

A formal collective bargaining agreement, signed with the Union in November 2021, for a 21-34 month period remains in force. This is a major achievement which bodes well for relations between the Bank and its employees.

Employee union	Number of Employees
The Ceylon Bank Employees' Union	5752
Officers' Union	252
Sri Lanka Nidahas Banku Sevaka Sangamaya	37
Jathika Sevaka Sangamaya	140
All Ceylon Bank Employees' Union	24
Pragathi Bank Employees' Union	993
Total	7198

ANTI-CORRUPTION

The Bank has a strong anti-corruption culture that has been inculcated through a series of training programmes conducted by the Internal Audit Department. All employees have been educated on the prevention of corruption and fraudulent behaviour, and have been informed about the Bank's anti-corruption policy approved by the Board of Directors. We have a zero tolerance policy regarding bribery and corruption and are bound to take strict disciplinary action if any offence is detected. 11,700 hours of training was received by 2,875 employees during the year.

Anti-Corruption	Number	(%)
Total number and percentage of governance body members that the Organisation's anti-corruption policies and procedures have been communicated to	All	100
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	2,875	39%
Total number and nature of confirmed new incidents of corruption for the year	72	1%
Total number of confirmed incidents in which employees were dismissed or disciplined for corruption	68	0.9%

We have put the following policies in place to support all staff to maintain 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.

- **Whistle-blower Policy**

  The whistle-blower 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

We are working very hard to achieve our five strategic initiatives by 2024. One of the important milestones is the development of the new HR management system that we initiated this year. By 2024 we hope to generate the first evaluations and prepare the rewards schemes accordingly.

We also plan to open up the HR system to the staff, to enable them to interact transparently with the system and obtain any information they need about their employment history. Further, if they need to update their personal details such as a change of marital status or contact details, they do not need to visit the HR Department. They would merely need to submit the required documents online through the secure login system. The introduction of this new system will revolutionise the way employees interact with the Bank.

We will provide a face recognition facility, and the employee's attendance, leave, salary, overtime, and other HR related functions will be handled automatically. This is particularly important when we work with the digitally savvy Gen Z employees. Our task here is to ensure that our older team members are brought up to speed to prevent any conflict between the new and old staff members. We will concentrate on the soft skills such as etiquette to help them to operate confidently and efficiently in the digital space.

One of our main objectives is to provide leadership development training for all grades from Manager upwards, to ensure that they are well prepared to accept and work with the new generation of recruits who come in with good digital skills. This will also help us to do our talent mapping for future personnel planning. This new combination of young dynamism and mature experience with a forward looking mindset is the new image of People's Bank that we strive to achieve.

SOCIAL AND RELATIONSHIP CAPITAL

CUSTOMER CAPITAL

Our strengths in customer capital has stemmed from our Island wide branch network. However, with changing economic conditions and the emergence of new customer segments with varying demographic profiles and expectations which had to adopt new strategies.

OUR APPROACH

We have a customer base encompassing closed to two third of the population and our ethos has been to promote accessibility over profitability. During the year we had to face the major challenges of inflation and the foreign exchange crisis. People's Bank still serves its traditional customer base, which remains loyal to us, but we faced the need to aggressively open out to a new group of customers with different income levels, requirements, tastes, and aspirations. We were also cognisant of the fact that the new millennial customers, which are now a large proportion of our customer base, are very receptive to digitalisation; we had to tailor our products and communications accordingly.

KEY HIGHLIGHTS

Over 14.7 million customers

96% of customer complaints resolved

682,300 new customers onboarded during 2022 alone

Two new products to serve high end customers: **Elegance and Excelsior**

MATERIAL THEMES

- Financial performance
- Customer experience
- Operational efficiency
- Talent management
- Socio-economic impacts
- Brand equity
- Customer access
- Health and safety

SOCIAL AND RELATIONSHIP CAPITAL

CHALLENGES

- Political and economic instability
- Lack of receptiveness to traditional marketing communications
- High interest rates impacted lending
- Constraints from regulators on marketing expenditure

OPPORTUNITIES

- Realise benefits from digitalisation
- Further increase the share of overseas remittances

CONTRIBUTION TO UN SDGs

No poverty

Financial inclusion of all citizens will empower them and give them access to financial services.

Reduced Inequalities

Our broad customer base will facilitate widespread social and economic benefits.

VALUE CREATED

Channels profitability

LKR 17.2 Bn.,

exceeding budget by

110.3%

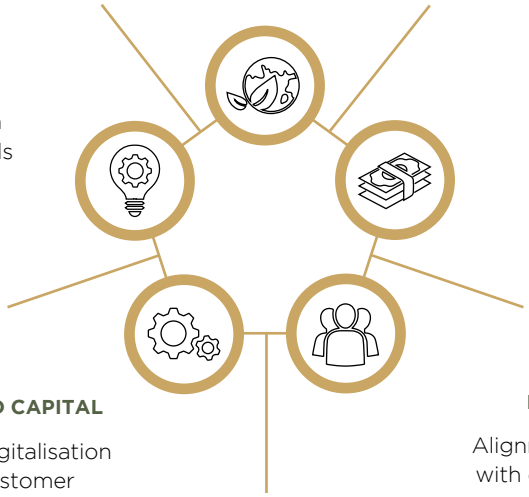
CAPITAL LINKAGES

Reduced paper usage consequent to digitalisation and green buildings contribute to conserving natural capital.

NATURAL CAPITAL

INTELLECTUAL CAPITAL

Technological skills help launch innovative applications which fills customer needs.



FINANCIAL CAPITAL

Increased market share in remittances, digitalisation, and opening to new customer segments led to increased financial capital.

MANUFACTURED CAPITAL

Investments in digitalisation give a new customer experience in line with the expectations of the millennial generation.

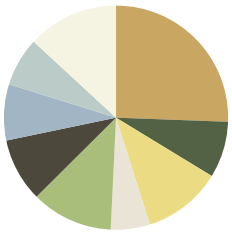
HUMAN CAPITAL

Alignment of remuneration with customer satisfaction provides mutual benefits.

CUSTOMER PROFILE

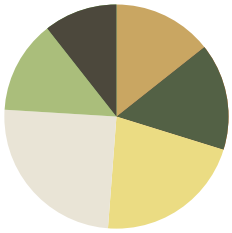
With an extensive island-wide branch network and a rapidly expanding digital ecosystem, our customer base reached up to 14.7 million during the year under review. The fact that we had a diverse base is exemplified by the fact that 79.5% of our customers reside outside the Western Province. Significantly, 51.1% of our customers are female, which is tribute to our gender-neutral approach. Demographics evolve around and approximately 24.8% of our customers belong to the millennial generation. This is a major factor we take into account the formulation of our products and strategies.

CUSTOMER GEOGRAPHICAL PROFILE



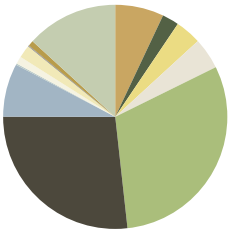
- Western – 26%
- Eastern – 8%
- Southern – 11%
- Northern – 6%
- North Western – 12%
- Sabaragamuwa – 9%
- North Central – 8%
- Uva – 7%
- Central – 13%

CUSTOMER AGE PROFILE



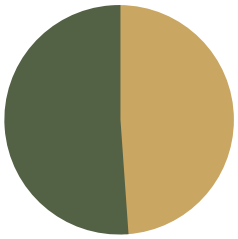
- Below 10 years – 14%
- 10–15 years – 16%
- 16–25 years – 21%
- 26–45 years – 25%
- 46–60 years – 13%
- Over 60 years – 11%

CUSTOMER INDUSTRY PROFILE



- Agriculture, forestry and fishing – 7%
- Manufacturing – 2%
- Tourism – 4%
- Transportation and storage – 4%
- Construction – 31%
- Infrastructure development – 27%
- Wholesale and retail trade – 8%
- Information technology and communication services – 0%
- Financial services – 1%
- Professional, scientific and technical activities – 2%
- Education – 0%
- Healthcare, social services and support services – 1%
- Others – 13%

CUSTOMER GENDER PROFILE



- Male – 49%
- Female – 51%

OUR PRODUCTS AND SERVICE OFFERINGS

Retail banking	**Deposit products** i. Current Accounts ii. Savings *Isuru Udana* *Sisu Udana* Yes *VanithaVasana* *Jana Jaya* *Aswenna* *Parinatha* People's Relax Normal Savings EtheraWasana 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

Scan to view the products and services offered by People's Bank

The synergistic impact of our decades of experience, customer centricity, and seamless blend of technology and digitalisation continue to enhance our product and service offering. Our portfolio of offerings is priced in line with competing products and the country's monetary policy and fosters financial inclusivity. We do not engage in anti-competitive, anti-trust, and monopoly practices. No fines and penalties were incurred during the reporting year.

In 2022, we continued with the process of innovation and product development to meet the rapidly changing requirements, expectations and tastes of customers; in the process we have to ascertain and address the different requirements of customer segments and demographics.

OUR INITIATIVES

A major promotional campaign during the year was the remittance promotion, *Vaasi Kotiyayi*, which was of great national importance considering the foreign exchange crisis and the trend among our overseas workers to use informal channels to remit, money rather than official channels. The success of this initiative was demonstrated by the fact that we doubled our market share of overseas remittances.

Hitherto our policy was to treat customers as a homogenous group. An innovative step was launching new programmes for affluent and professional customers during the year.

A third pioneering initiative was to augment our brand by adding a CSR component to it. This brand initiative, named *Mahajana Mehewara*, brings various CSR initiative originated at different levels, (Head Office, Branch, or Welfare Society) under a common umbrella. Under this programme we are helping extremely disadvantaged segments of society including very remote and backward schools. We are also stretching out a helping hand to the health sector.

UNDERSTANDING THE CUSTOMER

Our customer accessibility has traditionally been based on two factors; our wide network and affordability. But with the current trend the emphasis in the future will be on service excellence and superior technology. We are also making several efforts to study and understand our customers. Service excellence needs to be measured. We conducted three customer-focused surveys during the year; mystery customer survey, perception and attitude survey, and net promoter score survey. The results of the last, which was recently commenced, will become available in about a year. All three will basically be an indication as to how well we are serving our customers, albeit with a different slant in each.

SERVING THE CUSTOMER

Three aspects to our customer service

1. People orientation initiatives

We have carried out many service quality improvement programmes at the Branch level. Based on these programmes we have given service quality ratings to the branches and the pawning centres. This in turn has led to performance ratings, by way of KPIs, to those in leadership roles; Branch Managers and Regional Managers. This also helps in placing people in appropriate leadership roles. Staff are rated based both on their knowledge and their experience. If a person is not suitable for a Manager role he may be effective as an Operations Manager, or in an audit role. Branches have also been provided with a Service Handbook to help them improve the level of service. Considering the market aspect, Branch Managers and Regional Managers have been allowed a certain degree of discretion to give special deposits rates to customers. This gives greater customer satisfaction and job satisfaction to our leaders in the periphery.

2. Process orientation initiatives

Process orientation is done by evaluating a combination of internal resources and external resources. A combination of high levels in both suggests that the Branch or Region is an extremely suitable location for expansion. If external factors are high but internal factors are low this indicates a need to strengthen the staff. On the other hand, a combination of low external resources and high internal ones suggests an inappropriate location and a need for relocation or merger of the business unit. A rating of low for both indicates an inadequacy in both the staff and the location, which again points to the need for relocation or merger.

3. Physical evidence initiatives

Physical evidence initiatives relate to the application of 5S to improve the efficiency of the operations of the Business Unit, which is in progress.

OPENING TO NEW CUSTOMER SEGMENT

We also took a major innovative step to broaden our products and services while also appealing to a new class of customer. Two new package offerings were launched, Elegance and Excelsior, targeted at elite customer segments. It is noteworthy that these are packages, and not simply new products. Elegance is targeted at high-net-worth individuals while Excelsior targets high-income upwardly mobile professionals. These packages satisfy the needs of their target customers for convenience, recognition, flexibility, and personalisation. They embed features that will satisfy the customers' lifestyle needs.

Elegance customers will have numerous privileges such as preferential tariffs for banking services, preferential rates for local and foreign currency deposits, concessionary rates for personal loans, personalised Debit Cards, and the Privilege Visa Infinite Credit Card which carries a number of benefits including free travel insurance, free Lounge key access membership, and concierge services. They will also have the opportunity of using two exclusive Elegance Customer Centres at Colombo 7 and Ratnapura, where they will be served by a dedicated Customer Relationship Officer. Elegance Branch Premises have a sophisticated look and feel and provide refreshments, free wi-fi, and other amenities. Elegance customers also have the option of having their requirements attended to by the Branch Manager at any People's Bank Branch. They are also provided with a personalised Elegance cheque book. Concierge services provide 24/7 personalized assistance for travel planning, dinner reservations, sports, entertainment tickets, and more, which are available 365 days a year from home or abroad.

Excelsior customers will be served by a dedicated Excelsior Ambassador at every People's Bank branch, who will cater to their needs swiftly and efficiently. They will be entitled to an Excelsior Visa Credit Card and a Debit Card with enhanced transaction limits, and concessions on annual fees. They also receive preferential rates on foreign currency transactions, other banking transactions, preferential rates from People's Insurance for vehicle and property insurance, a special branded chequebook. The Credit Card holders will be entitled to free travel insurance and a free lounge key access membership.

CUSTOMER COMMUNICATION

The adverse economic and political conditions during the year made customers less receptive to traditional marketing channels or messages. A new strategy had to be woven to counter this situation. Customers continue to be concerned with, and we are conscious of their right to, fair, accurate, easily comprehensible, and timely information regarding our products and services. The Bank's Customer Charter has been crafted in accordance with Central Bank of Sri Lanka(CBSL) guidelines. A major thrust was two-way communication with customers through digital channels. We maintain a Facebook page for the Bank and also a YouTube channel. The Facebook page has a fan base of nearly 347,000 and the Bank's website has an average of 107,000 visits per month. These channels provide customers the opportunity to ask questions, submit complaints, and obtain prompt feedback. We respond to customer inputs on a 24X7X365 basis, which is a unique achievement for a Sri Lankan Bank. Furthermore, we also distinguish ourselves in our online content. Our Facebook page has diverse content, including videos, much of which is unrelated to banking. This type of communication is considered to be more effective in the present economic milieu, rather than taking a "hard sell" approach.

Besides our digital channels, we also engage with our customers through our dedicated 24X7 Call Centre. The Call Centre provides services to customers in Sinhala, Tamil, and English. Customers can have their queries on banking products and services, as well as on other matters such as health and safety regulations, answered swiftly and comprehensively.

A major step towards enhancing physical look and feel was taken with the revamping of the branches. The use of colours and layouts has been standardised across all branches to point customers to the respective counters with which they need to transact. Coming to the digital side, our entire website has been redesigned to reduce clutter and make it state-of-the-art resembling other high profile websites. Both the above changes, gave the Bank a "youthful look" which makes it resonate with millennial customers.

Our apps and other digitalised applications have been a resounding success. To state just one example, our People's Wave app has scored a monthly average of 35,000 downloads and 411 Billion transactions.

CUSTOMER COMPLAINTS

The Bank's policy is to give swift attention to any customer grievances and grant prompt redress where necessary. We have put a grievance handling procedure in place which functions effectively and efficiently. In the event of any dissatisfaction with our process, a customer has the option of escalating the issue to the Financial Ombudsman. Complaints are received through our 24-hour customer service hotline and dedicated Customer Service Handling Unit, and acted on promptly. Employees are kept informed about customer complaints at the monthly Branch Managers' Conferences and corrective action is decided on to prevent recurrence. Complaints relating to interruptions of ATM services are handled by the Central ATM Control Department. Here too procedures are in place to rectify the situation with minimum delay.

The details of customer complaints received is given below:

Description	Number
Number of customer complaints received	1,931
Number of customer complaints resolved	1,854
Pending Complaints	67
Pending Investigations	15
Pending Legal cases	29
In progress	5

CUSTOMER HEALTH AND SAFETY

All our branches and contact points have been designed with customer health and safety in mind, in accordance with our commitment to the issue. Our branches have precautions in place for emergency situations such as fire exits, fire extinguishers, and fire sirens. They are also protected from any physical threats by armed and non-armed security personnel. Despite the winding down of the COVID-19 pandemic, we have continued to be vigilant regarding health-related risks. All health and safety protocols that were introduced at customer touch points according to Government guidelines continue in place.

CUSTOMER PRIVACY

In the present context where security and privacy of data is subject to many threats, we are continuously vigilant about the need to safeguard our customers' interests and the Bank's reputation. Mindful of the facts that threats are ever increasing, we strive to make our IT and cyber security frameworks more and more robust. The controls we have in place include regular IT vulnerability assessments, network upgrades, IT audits by third parties, and continuing training for staff on IT security. We are pleased to report that in the year under review there were no occurrences of breach of customer privacy or non-compliance with security precautions.

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 2022, 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.

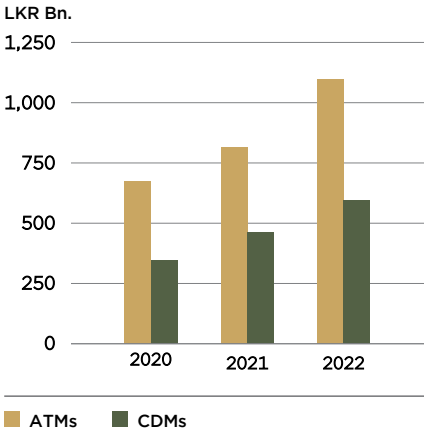
FINANCIAL INCLUSION

People's Bank, by way of its ethos and its wide network, has always been in the forefront of financial inclusion. We have set up branches in remote rural locations where no banks have ventured before. Though some such branches were not financially profitable, we looked beyond the bottom line.

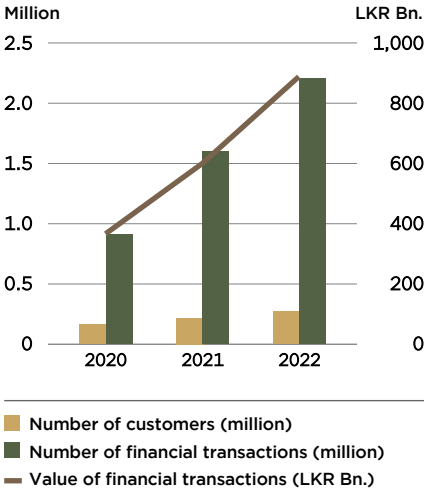
Recently however, we have taken financial inclusiveness to a new level. Our Self Banking Units are patronised by people of widely differing locations, social classes, and education levels. It would be expected that people with low levels of literacy would be wary of technology. However, we were able to draw them in because of their trust in People's Bank. Thanks to the Bank financial literacy has come to include the ability to use technology.

We also promote financial literacy by giving loans at interest rates below current market rates. This is possible when we obtain concessionary finance at low rates. The Birth of Freedom is another programme of the Bank worth highlighting. Every child born in the country is entitled to receive a savings account with an LKR 2,000 initial deposit. This is afforded to every child on an absolutely non-discriminatory basis.

VALUE OF TRANSACTIONS



MOBILE AND INTERNET BANKING



OUR PERFORMANCE

The Branch Network had an extremely satisfactory year in terms of profitability. We achieved a profit of LKR 17.2 Bn. that exceeded the targeted budget for the year 2022. However, this has to be judged in the context of increased interest rates and transfer pricing. This apart, there have been savings from rationalising our network and improving profitability in Branches and other Business units.

SALE OF BANNED OR DISPUTED PRODUCTS

In compliance with the CBSL Customer Charter, and our own ethical codes, we do not sell or market products which are banned in the market, or are the subject of stakeholder or public debate. We refrain from financing any project which is illegal according to our credit policy. There were no non-compliances during the year regarding the sale of banned or disputed products.

FUTURE OUTLOOK

Looking to the future, we can foresee a continuing increase in our share of overseas remittances. Our increasing focus on the needs of millennial customers should pay dividends. With the trend set this year, we should place more emphasis in or communications on promoting the Brand rather than individual products. People's Bank has weathered the storms of a turbulent year and can confidently look forward to the future.

BUSINESS PARTNER CAPITAL

Our business partners are those who provide the resources, products, and services that are procured from outside the Bank to keep the wheels of our business turning. The relationships with these partners are an integral part of our value creation process.

OUR APPROACH

The Bank firmly upholds the value of sustaining a mutually beneficial and reciprocal partnership with its 383 business partners through proactive and collaborative efforts, which generated a volume of LKR 15.9 Bn. over the past year. This partnership finds its expression in an open, responsible, and ethical procurement policy, ensuring impartial and equitable tendering processes, and upholding transparency and efficiency in fulfilling our contractual commitments. The Bank maintains strict compliance with all industry regulations and operates with transparency and integrity, adhering to ethical business practices while meetings its financial obligations promptly.

KEY HIGHLIGHTS

- **258** suppliers
- **12** member **associations**
- **Over 93%** of the value created for **suppliers of local origin**
- Relationships with **43 correspondent banks** and **82 Vostro agents**

SOCIAL AND RELATIONSHIP CAPITAL

MATERIAL THEMES

- Operational efficiency
- Supplier value creation

CHALLENGES

- Restrictions on imports and limited availability of foreign exchange caused delays in the procurement of certain imported supplies
- Certain projects had to be halted or postponed due to financial constraints
- Foreign partners' credit lines reduced due to downgrading of Sri Lanka's sovereign rating

OPPORTUNITIES

- Ability to resume construction projects that were halted due to financial constraints

CONTRIBUTION TO UN SDGs

Gender Equality

Giving equal opportunities for women to reach leadership roles and play an active part in decision making.

Decent work and economic growth

Creating satisfying and well-remunerated employment.

Sustainable cities and communities

Through supply chains that function seamlessly we deliver value to customers and communities.

Climate action

Promote responsible procurement and concern for the environment among suppliers.

Partnerships for the goals

Networking with business partners delivers value to stakeholders.

VALUE CREATED

LKR 14.8 Bn. — 93.1%

paid to local suppliers

LKR 1.1 Bn. — 6.9%

paid to foreign suppliers

CAPITAL LINKAGES

Encouraging suppliers to embrace sustainable practices and improve energy efficiency helps reduce their environmental impact.

Imposing rigorous screening procedures on all suppliers promotes environmental and social sustainability.

Ensuring that goods and services procured by the Bank are produced, delivered, and disposed of in a socially and environmentally responsible manner enhances the preservation of natural capital.

The digitisation of tender processes introduced during COVID-19 pandemic enhances efficiency.

Upholding ethical business practices fosters robust partnerships with business partners.

INTELLECTUAL CAPITAL:

FINANCIAL CAPITAL

Efficient supply chain management improves productivity and generates cost savings.

MANUFACTURED CAPITAL

Investing in digitisation and enhancing procurement processes augments business partner capital.

HUMAN CAPITAL

Training in supply chain management facilitates the growth of business partner capital.

Number of registered suppliers		Number of correspondent banks		Number of Vostro agents		Payments to suppliers LKR Bn.	
2018	2019	2018	2019	2018	2019	2018	2019
383	242	43	42	73	71	12.8	12.2
2020	2021	2020	2021	2020	2021	2020	2021
242	258	42	42	71	78	11.1	12.3
2022		2022		2022		2022	
258		43		82		15.9	

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

SUPPLY CHAIN MANAGEMENT

The Bank considers supply chain management as a mutually beneficial process involving a reciprocal relationship. On the one hand, we aim to attain the highest possible value for money in our relationships with suppliers by procuring products of excellent quality at the lowest feasible cost. On the other hand, we strive to cultivate harmonious relations with our suppliers, which promote timely deliveries, particularly in cases of urgent supply requirements.
Our approach to supply chain management results in both efficient and cost-effective procurement, as well as positive and enduring supplier relations.

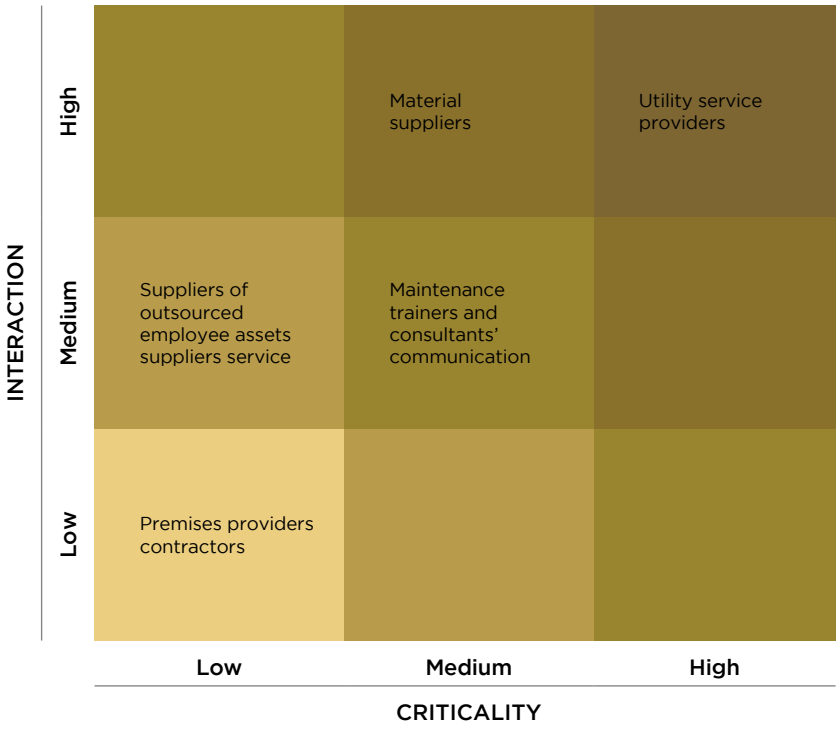
Procurement Policy

- The Bank's procurement policy is guided by a Procurement Manual, which is formulated to safeguard the Bank's interests while fostering positive supplier relations.
- The smooth functioning of procurement is essential to ensure a continuous supply of goods and services required by the Bank, guaranteeing uninterrupted operations.
- Procurement policies are revised to accommodate evolving needs.
- The Technical Evaluation Committee (TEC) meticulously evaluates all technical specifications before initiating procurement activities.
- The TEC committees develop both operating and capital budgets (CAPEX and OPEX) for all activities, which are utilised to prepare implementation plans for procurement and operations, delegating tasks among personnel according to their domain knowledge and the organisational structure.

Supplier relationship management

- Managing supplier relationships at the Bank is a collaborative effort, with both parties sharing product or service responsibilities while adhering to quality and compliance standards.
- New suppliers are selected through a formal process that involves initial Board-approved tender procedures, followed by rigorous screening.
- Critical and high leverage items, such as DI cards and IT equipment, are procured through a global tender, and the Bank maintains partnerships with selected global suppliers.
- We subject all of our new suppliers to screening procedures that evaluate their adherence to environmental and social criteria, ensuring that their production processes comply with the Central Environmental Authority (CEA) regulations and prohibit the use of child or forced labour.
- Following the COVID-19 pandemic, tenders were also solicited through an online process, as described below:
  - Tenders are solicited through a dedicated email and opened via Zoom, ensuring transparency in the procurement process. Suppliers are required to register on the Electronic Government Procurement (e-GP) system, which is mandatory under the Ministry of Finance. This system promotes fairness, transparency, and accountability.
  - During the year, the Bank faced various constraints, including the COVID-19 pandemic, political turmoil, economic crisis, devaluation of the SLR, and subsequent price escalations. As a result, certain construction projects were put on hold due to financial constraints. However, the Bank made compensatory payments to contractors, even under such challenging circumstances. The Bank is committed to maintaining strong business partner relationships and does not allow such constraints to be a hindrance to their continued maintenance.

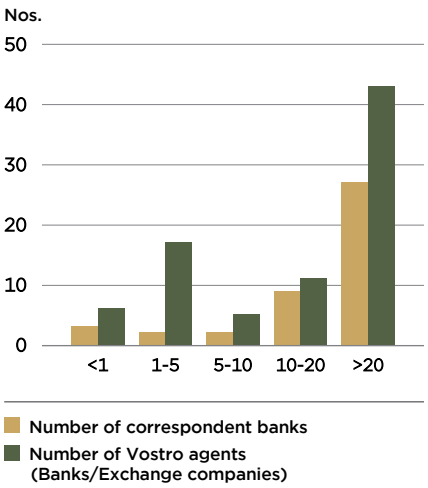
SOCIAL AND RELATIONSHIP CAPITAL



BUSINESS PARTNER RELATIONSHIPS

We have mutually beneficial relationships with banking partners, many of which have been built up over a period spanning several decades. These partners include 43 correspondent Banks and 82 Vostro agents.

LENGTH OF RELATIONSHIP



The Bank has established successful relationships with several foreign lending institutions, which have provided credit lines in the past. These relationships have ceased to yield the desired results at present due to the country's sovereign ratings downgrade. Nevertheless, the Bank aims to re-establish these relationships once the situation improves.

MEMBERSHIP IN INDUSTRY ASSOCIATIONS

The Bank has developed and fostered numerous affiliations with associated organisations. These relationships have been beneficial in keeping up with both local and international industry best practices. Such affiliations have enabled the Bank to maintain the highest industry standards in addition to fostering networking opportunities. The Bank holds memberships 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 Personnel 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 Ceylon
- Association of Primary Dealers
- Sri Lanka FOREX Association

SUPPLIER ENVIRONMENTAL ASSESSMENT

The Bank exclusively engages with suppliers, authorised dealers, manufacturers, and contractors who comply with environmental laws, regulations, and rules such as the National Environment Act, as well as the Bank's own environmental policy. This policy sets a moral and ethical standard that suppliers must meet during the screening process. Bank's tender process includes conditions on preventing environmental impact.

CHILD LABOUR

As a Government-owned bank, we are dedicated to fulfilling our social obligations, with a particular focus on safeguarding the rights of the younger generation. The Bank places great emphasis on promoting and protecting children's rights, and meticulously screens all contractors, suppliers, dealers, and manufacturers to ensure compliance in this regard. We ensure that all such parties conform to Sri Lankan laws and regulations pertaining to child labour. Bank's tender process includes conditions on preventing using child labour.

ETHICAL PRACTICES

Our approach to business partner relationships adheres to Government regulations and our own procurement manual, ensuring compliance with all requirements. We prioritise transparency in all procurement activities, and our process includes a rigorous supplier evaluation methodology that takes into account environmental and social concerns. We hold our suppliers, contractors, and consultants to the highest ethical standards and maintain strict confidentiality of all information related to them. Additionally, we aim to add value by providing constructive feedback, maintaining high quality standards, and ensuring timely payment.

FUTURE OUTLOOK

Amidst the turbulence of the year, we were successful in maintaining relationships with our business partners. With an improved outlook anticipated in 2023, we aim to resume certain activities that were previously constrained. We intend to capitalise on established partnerships to bolster our supply chain and reinforce our relationships. Needless to say, future partnerships will undergo the same rigorous screening process as in the past. We anticipate further productive and mutually beneficial relationships, which will enhance the Bank's value from its business partners.

INVESTOR CAPITAL

The Bank, being an institution with a history of over 60 years, has long been a key contributor to the coffers of our main shareholder, the Government of Sri Lanka.

OUR APPROACH

People's Bank has consistently maintained a high level of integrity and transparency in its entire operations. We have retained and enhanced investor confidence in the Bank by communicating an accurate picture of the Bank's financial position and its operating results to all its stakeholders in a timely manner. We have maintained a strong capital adequacy position through our strong asset base and portfolio quality. This has enabled us to see through times of adversity such as the economic crisis of 2022. We have managed to maintain sufficient liquidity position, within the constraints of our liquidity risk appetite, and along with investments in infrastructure, technology, people development, and process reengineering. This has enabled us to retain operational resilience, even in times of adversity.

KEY HIGHLIGHTS

Return on equity
12.2 %

MATERIAL THEMES

- Financial performance
- Operational efficiency
- Employee productivity
- Responsible lending
- Brand equity
- Customer access

SOCIAL AND RELATIONSHIP CAPITAL

CHALLENGES

- Turbulent economic conditions during the year
- Constraints on lending, which impacted profitability

OPPORTUNITIES

- Improved economic conditions in 2023 could result in increased profitability and dividend payments

CONTRIBUTION TO UN SDGs

Decent work and economic growth

The financial strength and stability of the Bank enables providing secure and well –remunerated employment as well as generating economic growth and job opportunities through our business operations

Peace, justice, and strong institutions

A robust governance structure, ethical practices, and efficient management builds the Bank's reputation which enhances our appeal to investors

VALUE CREATED

LKR 661 Mn.

paid as special levy and dividends to shareholders

CAPITAL LINKAGES

Investments in digitalisation and automation mitigates our impact on the environment

NATURAL CAPITAL

INTELLECTUAL CAPITAL:

Industry leadership in digitalisation and innovation contributes to increased investor capital

FINANCIAL CAPITAL

Sustaining our revenue and increases in profits enhances investor capital

MANUFACTURED CAPITAL

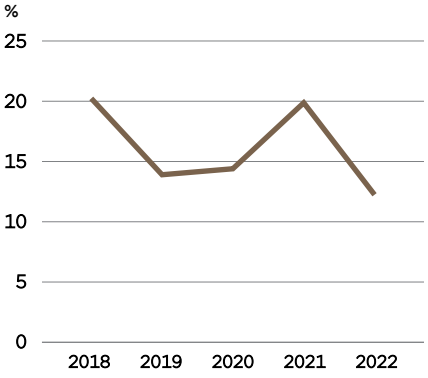
Investment in plant and equipment leads to value creation and increased investor capital

HUMAN CAPITAL

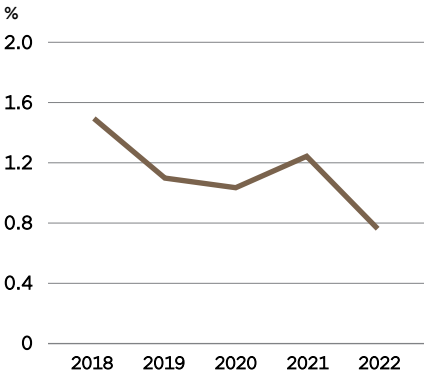
The skills and competencies of the employees lead to increased and profitable growth

INVESTOR CAPITAL STATISTICS

RETURN ON EQUITY



RETURN ON ASSETS



SHAREHOLDER PROFILE

Our principal shareholder is the Government of Sri Lanka which holds 92.27% of the equity share capital while the balance 7.73% is held by Cooperative Societies.

ECONOMIC VALUE ADDED (EVA)

In the year 2022, EVA of the Bank has been affected significantly due to the high rates of Treasury Bill rates prevailed in the country as a result of increased CBSL policy rates.

Computation of EVA

For the year ended 31 December	2022 LKR '000	2021 LKR '000	Change %
Invested equity			
Shareholders' funds	145,294,131	136,077,096	6.8%
Add: Allowance for expected credit losses and other losses	140,104,909	101,277,028	38.3%
Total	285,399,040	237,354,124	20.2%
Earnings			
Profit after taxation	17,192,058	23,720,143	-27.5%
Add: Impairment charge	33,346,451	14,472,820	130.4%
Less: Loans written-off	(271,802)	(187,681)	44.8%
Total	50,266,707	38,005,282	32.3%
Cost of Equity (Based on 12 months weighted average treasury bill + 2% for risk premium)	27.6%	10.2%	
Cost of average equity	72,198,620	21,873,885	230.1%
Economic value added	(21,931,913)	59,879,167	-236.0%

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

The direct economic value generated and distributed is an indication of the amount of wealth we have generated for our shareholders and the allocation of the amount retained by the Bank for its growth.

For the year ended 31 December	2018 LKR '000	2019 LKR '000	2020 LKR '000	2021 LKR '000	2022 LKR '000	Growth % 2022 vs 2021
Sources of income						
Interest	166,441,208	186,714,218	179,717,526	197,330,011	321,935,983	63.1
Exchange	6,016,099	800,416	3,311,844	(965,361)	2,740,436	183.9
Commission and fees	6,956,292	7,336,594	6,723,826	8,268,168	16,397,745	98.3
Capital gain	162,923	329,071	336,495	143,459	184,223	28.4
Other	1,707,356	4,548,686	892,017	2,473,543	15,970,222	545.6
Total	181,283,878	199,728,985	190,981,708	207,249,820	357,228,609	72.4
Utilisation of income						
To depositors/borrowers as interest	111,034,922	125,507,699	118,783,744	114,869,171	246,177,918	114.3
To employees as emoluments	19,504,835	19,226,233	19,685,506	22,711,335	26,602,748	17.1
To providers of goods and services	12,822,211	12,153,293	11,128,830	12,276,709	15,882,049	29.4
Net impairment loss on financial assets	2,623,970	8,488,026	11,567,174	14,472,820	33,346,451	130.4
To government – taxes, special levy and dividend	19,814,596	19,817,027	14,444,917	16,328,960	13,944,390	-14.6
To community	42,288	35,683	28,703	12,665	38,213	201.7
Retained for growth	15,441,056	14,501,024	15,342,833	26,578,159	21,236,840	-20.1
Total	181,283,878	199,728,985	190,981,708	207,249,820	357,228,609	72.4

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

Our dividend pay-out policy, has been structured so that payments to shareholders are made at regular intervals. The policy has been crafted to balance both returns to shareholders and the Bank's long-term growth. Dividend pay-out for 2022 amounted to LKR 661 Mn.

FUTURE OUTLOOK

In a very turbulent year, the Bank nevertheless achieved very satisfactory results and dividend pay-outs. With the prospects of improvement in the economy on the horizon, we can look forward to increased profits and shareholder value in 2023 and the years to come.

COMMUNITY CAPITAL

Since its inception over six decades ago, People's Bank has retained its strong bonds with the community, fulfilling its envisaged role of meeting the needs of the common man, fostering the development of rural entrepreneurs, and contributing to the overall betterment of society. Commitment to this goal lies at the heart of the Bank, and impels us to provide support and assistance to our customers and the wider community, especially in areas where there is the greatest need for our presence and services.

Many of our CSR programmes are targeted at local communities based on their most urgent needs. Examples are our nutrition programme which assists identified malnourished children in all districts and the water and electricity projects which assists very remote rural schools.

OUR APPROACH

In pursuit of our mission to enhance the standard of living and develop the infrastructure and amenities of the community, we have embarked on several initiatives, including the launch of our CSR initiative, *Mahajana Mehewara*, as a means to extend our community service programmes. Our focus is on imparting financial literacy and business skills to the public, especially in rural areas, to promote entrepreneurship. We also aim to preserve the cultural traditions, arts, and crafts of the community by encouraging community activities that promote these skills. In addition, our efforts are geared towards achieving sustainability and environmental conservation, ensuring that future generations benefit from what we achieve today. Our efforts are geared towards achieving sustainability and environmental conservation, ensuring that future generations benefit from what we achieve today.

KEY HIGHLIGHTS

Significant investments amounting to **LKR 38.2 Mn.** in community development across the country.

Three major national hospitals in Colombo were supported by **LKR 13.5 Mn.** in funding for the purchase of essential drugs and medical equipment, as well as the refurbishment of wards.

Underprivileged rural schools located in remote areas of the country received assistance of **LKR 6.4 Mn.** in the form of solar energy systems and clean drinking water.

SOCIAL AND RELATIONSHIP CAPITAL

MATERIAL THEMES

- Socio-economic impact
- Responsible lending

CONTRIBUTION TO UN SDGs

No poverty
Increasing financial inclusiveness, promoting financial literacy, and creating job opportunities help eradicate poverty.

Zero hunger
Providing financing tailored to the needs of small scale farmers sustains agriculture.

Good health and wellbeing
Providing hospitals with essential items and alleviating malnourishment among children.

Quality education
Supporting education by donating school books.

Clean water and sanitation
Proving drinking water to remote rural schools.

Affordable and clean energy
Providing solar power to remote rural schools and converting branches to solar power.

Partnerships for the goals
Partnering with other organisations to carry out community projects.

CHALLENGES

- Travel restrictions and limited public transport during the first half of the year
- Rising costs and budgetary constraints prevented the staff from participating in many community service projects

OPPORTUNITIES

- Further enhance the People's Bank corporate brand by conducting more community-based activities under the aegis of Mahajana Mehewara CSR initiatives.

VALUE CREATED

LKR 9.6 Bn. worth **22,150** number of community based development loans

CAPITAL LINKAGES

With the introduction of self-banking units, the Bank has taken steps to reduce paper consumption by promoting digital transactions, which has helped in conserving natural capital, and contributing towards building a sustainable future.

NATURAL CAPITAL

Community outreach projects conducted under the newly created CSR brand *Mahajana Mehewara*, enhanced the image of the Bank among the people.

INTELLECTUAL CAPITAL

The Bank's financial capital has been deployed towards community development activities, including the extension of community development. The investment in community development activities is seen as a necessary contribution towards the betterment of society

FINANCIAL CAPITAL

MANUFACTURED CAPITAL

The provision of self-banking units has also increased the convenience and accessibility of banking services for remote communities, thereby enhancing the manufactured capital of the Bank.

HUMAN CAPITAL

The Bank recognises the value of its human capital and encourages staff to volunteer for CSR activities. This creates social awareness among the employees while helping them to build team spirit.

INVESTMENT IN CSR PROGRAMMES

Investment in CSR (LKR Mn.)		Number of community based development loans		Community based development loans (LKR Mn.)	
2018	**2019**	**2018**	**2019**	**2018**	**2019**
42.3	35.7	42,511	31,686	9,017.6	7,852.4
2020	**2021**	**2020**	**2021**	**2020**	**2021**
28.7	12.7	37,064	32,260	22,967.2	16,544.9
2022		**2022**		**2022**	
38.2		22,150		9,568.10	

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.

CATEGORY WISE INVESTMENT IN CSR PROJECTS – 2022

Category	Amount LKR '000
Art and culture	5,800
Education	5,050
Environment	6,435
Health	14,637
Other	6,291
TOTAL	38,213

OUR COMMUNITY PROJECTS

During the course of the year, the Bank's Corporate Social Responsibility (CSR) programme Mahajana Mehewara, gained prominence through various community service initiatives, with the health and education sectors being primary beneficiaries. The Bank has been consistent in its commitment to helping the underprivileged segments in keeping with its core values. However, in 2022, the Bank took an additional step of integrating its social awareness into its corporate brand. This was a decision that is sure to resonate well with many individuals, given the current economic climate, where an overly aggressive marketing approach would not have been appropriate. These community-driven initiatives, which addressed pressing social concerns, also bolstered the Bank's corporate brand in a more subtle manner that was appropriate for the times.

HEALTH AND OTHER SOCIAL ACTIVITIES

Birth of Freedom

The Bank celebrated Sri Lanka's 74th Independence Day with a continuation of the Birth of Freedom programme this year. People's Bank gifted LKR 2,000 worth of Isuru Udana Gift Certificates to every baby born between the 1 and 7 February 2022. Bank officials made a token presentation of Isuru Udana vouchers and other gift items to the Directors of the Castle Street Maternity Hospital and the De Soysa Hospital for Women. Meanwhile People's Bank branches all over the island celebrated the event in similar style.

Essentials for Hospitals

Essential medicines and medical supplies worth LKR 5 Mn. were donated to both Lady Ridgeway and Castle Street hospitals, which are national hospitals located in Colombo. We are currently refurbishing the wards of the De Soysa Maternity Home through the Mahajana Mehewara initiative.

Feed-a-Child Programme

With the low nutrition levels of children becoming a topic of concern, People's Bank has stepped in to donate LKR 1 Mn. to the Feed-a-Child programme launched jointly by the Sri Lanka College of Paediatricians and Manusath Derana charitable organisation. Malnourished children from all districts are identified by the family health officers of the area, and the Feed-a-Child programme will provide them with essential nutritional supplies worth LKR 6,000 every two weeks for a six month period, under the supervision of paediatric specialists. The children's nutritional status is monitored by the doctors and officials of the area. The programme has so far been implemented in the Nuwara Eliya, Monaragala, and Ratnapura districts.

Blood Donation Campaign

A blood donation campaign was organised by the People's Bank Welfare Department to commemorate the 61st anniversary of the Bank. Many donors participated, under the supervision of the Blood Bank doctors. This is an annual event where a significant amount of blood is donated to the Blood Bank each year.

Environment

Three schools located in remote and under-resourced areas were each provided with a 3kv solar-powered inverter system, water pump, and water tank.

- Galamuduna Junior School in Meemure
- Kalukale Vidyalaya in Meegahakivula, Badulla
- Dumbara No.02 Tamil Vidyalaya in Ayagama, Ratnapura

The programme will provide free electricity and running water for both students and teachers of the school. It will continue into the following year, expanding the list of schools that will benefit from it.

Art and Culture

The Bank has been the main sponsor of the annual Esala Perahera, the world-renowned pageant in Kandy, as a means of promoting traditional dance and music while preserving our cultural heritage. The Bank also participated regularly in religious ceremonies and charitable acts in Anuradhapura, in order to commemorate Poson Poya.

School Book Project

The Buddhist Society of the People's Bank took another step in its annual Book Donation Project in November 2022. This was carried out under the Bank's Mahajana Mehewara Programme and took place at Vihara Maha Devi Balika Vidyalaya, Colombo 10. School books and other equipment were distributed to about 200 economically disadvantaged school children.

COMMUNITY-BASED DEVELOPMENT LENDING

The Bank's strategy to promote financial literacy and inclusivity among underprivileged communities is primarily focused on community-based lending. The Bank has launched several initiatives to facilitate small-scale entrepreneurship, and uplift rural communities. In 2022, the Bank successfully funded 17,100 loans for community-based development, totalling LKR 7,331.35 Mn. Additionally, the Bank disbursed 5,050 community development loans, amounting to a total of LKR 2,236.75 Mn. through refinancing. These loans have been utilised across various sectors, with the agricultural sector receiving the largest commitment. The Bank has directly financed 9,547 loans worth LKR 6,282.11 Mn. to the agricultural sector, while an additional 1,816 loans amounting to LKR 763.95 Mn. were granted through refinance loans.

Community-based loans in 2022

	Funded by the Bank		Funded through Refinance Schemes	
	Number of loans	Outstanding amount LKR Mn.	Number of loans	Outstanding amount LKR Mn.
Agricultural	9,547	6,282.1	1,816	764.0
Commercial	1,218	266.4	1,306	781.0
Consumption	10	5.0	4	0.6
Financial	56	11.4	22	4.5
Housing and property	15	3.7	13	14.3
Industrial	391	47.7	470	157.4
Other economic activity	5,653	614.8	908	83.5
Services	184	48.0	423	214.1
Tourism	26	52.2	88	217.4
TOTAL	17,100	7,331.4	5,050	2,236.8

INDIRECT ECONOMIC IMPACTS

The Bank plays a vital role in creating positive indirect impacts to the economy in which it operates. People's Bank as the Banker of the nation is involved in providing free services like pension payments, university payments and teachers' salaries.

The Bank has been supporting "Buddhist welfare fund of the temple of the sacred tooth relic (*Sri Dalada Maligawa*)" by way of keeping tills in the branches to collect donations which will be used for charitable work.

People's SPARK is another project which launched to empower new graduate to transition into entrepreneurial role. The Bank also provide additional financial support to regional credit units to work closely with the customers to advice on business strategies, restructuring their assets and guiding their revival.

FUTURE OUTLOOK

As a Bank that represents the people, our origins and presence have always been rooted in the wider community throughout the Island. Our actions are guided by the well-being of our customers and society as a whole, and we remain committed to prioritising their welfare in all our endeavours. As we continue with our activities, particularly under the thematic expression of *Mahajana Mehewara*, we will remain dedicated to serving the greater community and promoting the betterment of all.

NATURAL CAPITAL

Natural Capital is the planet's limited storehouse of natural resources such as soil, water and air that is available for the use and well-being of all living creatures including mankind. What we take from it must be returned, so that we do not damage the fragile ecosystem on which our very existence depends. In our quest to provide the best possible services to our stakeholders, the Bank does need to utilise some of these resources, but it takes all measures to reduce, recycle and reuse them in our business activities.

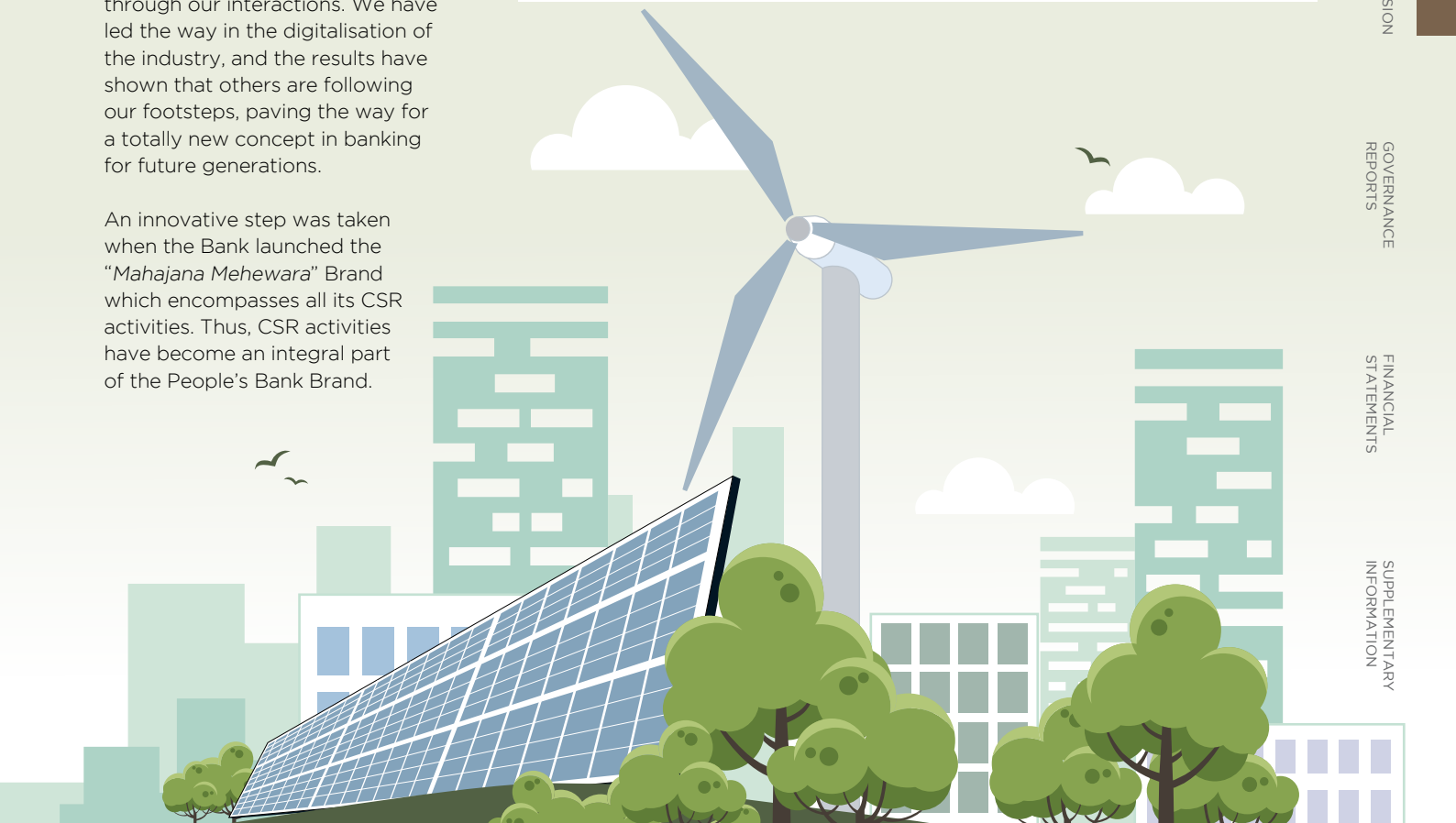
OUR APPROACH

Concern for the environment and the conservation of natural resources is written into our DNA, it is a part of our policy statement. From the outset our focus has been directed towards industries, businesses and people who are close to the earth, the fields, inland waterways and the ocean. This mindset has enabled us to make sustainability an integral part of all our operations, from lending policies, to administrative decisions, from green branches to digital banking solutions. We continue to strive to reduce our carbon footprint, increase the use of renewable energy and spread the word about environmental conservation to the entire stakeholder community through our interactions. We have led the way in the digitalisation of the industry, and the results have shown that others are following our footsteps, paving the way for a totally new concept in banking for future generations.

An innovative step was taken when the Bank launched the "*Mahajana Mehewara*" Brand which encompasses all its CSR activities. Thus, CSR activities have become an integral part of the People's Bank Brand.

KEY HIGHLIGHTS

- **20** green branches powered by solar energy
- Water consumption reduced by **3,318 cu.m.**
- Electricity consumption reduced by **20,344 kWh**
- **2.7 million accounts** opened digitally
- **LKR 551.9 Bn.** in digital deposits
- **101 million** ATM's and SBU transactions to the value of LKR 1,703 Bn.



NATURAL CAPITAL

MATERIAL THEMES

- Responsible lending
- Environmental impact of the business

CHALLENGES

- Transport crisis and fuel shortages resulted in the Bank having to provide transport to employees, increasing use of fossil fuels
- Delays in the construction of green branch buildings due to work stoppages and rising costs

OPPORTUNITIES

- Increased use of digital on boarding of customers
- Administration, interviews, meetings (internal and external) conducted online due to travel restrictions
- Further reduction of internal paper usage through digitalisation

CONTRIBUTION TO UN SDGs

Clean Water and Sanitation

Water conservation in branch offices

Sustainable Cities and Communities

Community service projects to provide clean drinking water and solar energy supplies to underprivileged schools in remote locations.

Climate Action

Reduction of climate effects by monitoring and limiting the use of air conditioners.

Affordable and Clean Energy

Greening of bank branch buildings

Responsible Consumption and Production

Reduction of paper use in bank operations, and conservation of electricity in all buildings, promoting digital interactions with customers and staff.

VALUE CREATED

Paper recycling increased to

5,968 Kg

5.9 tonCO_2e

GHG emission intensity per employee

Future plans to introduce solar power to

50 branches by 2023

ISO 14064-1:2018 Certification

for the year 2022.

CAPITAL LINKAGES

The launching of the "*Mahajana Mehewara*" Brand enhanced the Bank's overall Brand image

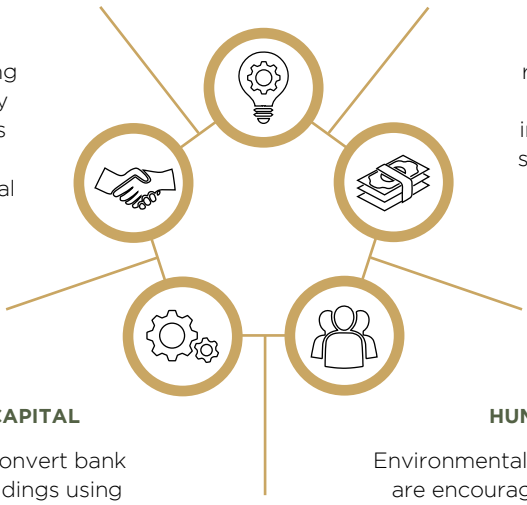
INTELLECTUAL CAPITAL

SOCIAL AND RELATIONSHIP

In a year when lending was restricted due to the liquidity problem and high inflation, funding was available for environmentally relevant and sustainable projects such as the e-ticketing solution jointly undertaken with the Central Cultural Fund to issue entry tickets online for tourist attractions island wide

FINANCIAL CAPITAL

The conversion to renewable energy across the branches will reduce the use of grid electricity. Especially in view of the sharp increases in charges, the move to solar power should bring financial benefits in the future. Similar benefits can be expected from the reductions in water and paper usage



MANUFACTURED CAPITAL

We are continuing to convert bank branches to Green Buildings using solar power and LED lighting while maximising daylight

We are a Platinum Member of the Green Building Council of Sri Lanka (GBCSL), and all new branches are constructed to meet their Green SL Rating System

HUMAN CAPITAL

Environmentally relevant CSR projects are encouraged in all branches and regions, so that the staff members carry the sustainability flag into their own communities' island wide

Employees are called upon to manage the use of fans, air-conditioning and lighting to minimise electricity consumption

PEOPLE'S GREEN PULSE – THE BANK'S ENVIRONMENTAL SUSTAINABILITY PROGRAMME

The objectives of the programme are to monitor the environmental impact of the Bank's operations. It is responsible for minimising these effects by educating the staff about the latest sustainable banking practices. It is also engaged in creating awareness among customers and the general public about these initiatives, thereby spreading the word about sustainable banking practices across the wider community. Sustainability teams have been set up in all branches and regions to participate in the People's Green Pulse and drive the environmental initiatives forward.

Green Buildings Concept

Buildings	Processes	Customers	Employees	Society
Green Buildings Policy for all constructions: • Selected buildings are certified as carbon neutral • 20 buildings solar powered (proposed to install 50 in 2023) • New buildings to follow LEED/ GREENSL guidelines • Building contractors to follow LEED/ GREENSL/ CIOB Green Mark Certification	Paperless operations: • ATMs and CDMs added • Kiosks for utility bill payments • Widest ATM network • Paperless account opening and e-statements • Paperless loan processing • Online and mobile banking systems • Debit and credit cards • 24/7 People's Call Centre	Green banking promotion for savings: • Paperless Express Banking account opening • E-statements to replace paper • Promotion of SMS and Internet Banking • Debit cards to promote cashless society • Express Banking for new customers • Promotion of ATMs, CDMs and Kiosk payments Green banking promotion for loans: • Green Loans to assist purchase of electric/ hybrid cars, solar power systems etc. at lower rates • Promote environment friendly power sources • Promote environment friendly practices/ processes	Educate staff on benefits of environmental sustainability: • Encourage staff to concessionary loans to buy solar power systems, use environment friendly building methods and electric/hybrid vehicles • Bank policy to make sure only electric or hybrid vehicles are purchased under staff loan scheme • Push the staff to use email and digital documentation	Take our place as the most sustainable, green Bank in the country: • Minimise the carbon emissions from the Bank's operations • Invoke carbon management and carbon trading practices • Educate society in environmental sustainability • Obtain carbon credits by engaging in tree planting programmes

GREEN BRANCH BUILDINGS

As a Platinum Life Member of the Green Building Council of Sri Lanka (GBCSL), People's Bank follows green concepts in all construction and renovation projects of the branch network. These projects are certified according to the GreenSL Rating system of the GBCSL, as well as Urban Development Authority Green Building Guidelines, and all our branches obtain the ISO 14065 and GHG 002-01 accreditation from the Sri Lanka Accreditation Board (SLAB). This is a testament to the highest efficiencies in air quality and water management. We aim to extend our list of green branches in the future, going up to 50 by the end of 2023.

Opening Green Branches

Bank currently follows the above guidelines for the following ongoing flagship branch and regional head office buildings in order to obtain a green rated certification for the total building construction and the operational maintenance levels.

Building description	Location	Green status	Construction status	Expected Green Certification date
Regional Head Office and Bank Branch Building	Matale	Designed and planned according to Green Building concepts	In progress according to the Guidelines of GREEN^{SL} Rating System of Green Building Council	End of 2023
Regional Head Office and Bank Branch Building	Jaffna	Designed and planned according to Green Building concepts	In progress; Structure completed following guidelines of GREEN^{SL} Rating System of Green Building Council. Remaining construction commenced in 2022, proceeding according to the GREEN^{SL} Rating System of Green Building Council	2024
Regional Head Office and Bank Branch Building	Kegalle	Designed and planned according to the guidelines of the Environment and Landscape Division of Urban Development Authority (UDA)	In progress to meet the Green Building Rating System of the UDA	End of 2023
Office Development for People's Bank	No 374, Dr Colvin R. De Silva Mawatha Colombo 2	Designed and planned according to Green Building concepts	proceeding according to the Guidelines of GREEN SL Rating System of the Green Building Council	2025
Staff Training and Accommodation Centre	Pasikuda	Constructed applying Green Concepts, using solar energy, energy efficient light fittings and fixtures, water efficient sanitary fittings, natural lighting, reuse of treated waste/sewer water for landscaping, and rain water recharging to ground.	Completed	In operation
Regional Head Office Building	Main Street, Galle	Designed and planned according to Green Building concepts	On hold	–
Proposed Branch Buildings	Thambuttegama, Trincomalee, Baduraliya, Mankulam, Kinniya, Kalmunai, Kadawatha, Medirigiriya	Designed and planned according to Green Building concepts	On hold	–

REDUCING OUR CARBON FOOTPRINT

As the first state-owned bank in Asia to be certified Carbon Conscious ® by the Sustainable Future Group (SFG) in 2019 we have increased our energy efficiency, investing in renewable energy, reforestation and the purchase of carbon credits.

Greenhouse Gas (GHG) Inventory Summary 2022

Scope	Emission Sources	GHG Emission (tonnes)			Total Emission
		CO_2	CH_4	N_2O	$tonCO_2e$
Scope 1 Direct emission	Stationary combustion	44,251	2	0	44
	Mobile combustion	266,188	14	15	271
	Fugitive emissions	58,080	0	0	58
	Category 1: Total	369	0	4	373
Scope 2 Indirect emission	Purchased electricity	1,124,400	0	0	1,124
	Scope 2: Total	1,124	0	0	1,124
Scope 3 Other indirect emission	Purchased goods	129	0	0	0
	Business travel - Air	2,206	0	11	5
	Employee commuting	931,588	1,384	6,695	2,745
	Scope 3: Total	934	39	1,777	2,750
Other indirect emission	Transmission and distribution loss	115,813	0	0	116
	Water Supply by NWSDB	2,813	0	0	3
	Category 6: Total	119	0	0	119
TOTAL EMISSIONS		2,546	39	1,781	4,366

GHG emission intensity per employee was 5.9 $tonCO_2e$

There has been a significant increase in GHG emission for the reporting year due to the increase in Scope 3 (employee commuting).

REDUCING AND RECYCLING PAPER

By converting several internal and external paper based processes to digital channels we have drastically reduced the use of paper in our operations. Our island wide network of SBUs, Kiosks, ATMs and CDMs have shifted many customers from the branch counters to the digital channels, reducing paper as well as freeing up the Bank employees to work on more analytical tasks. Wherever possible we recycle waste paper, shredding it first when it is necessary to preserve confidentiality, and handing it to external parties. The Bank recycled 5,968 kg of paper in 2022.

WASTE MANAGEMENT

We maximised resource usage while safeguarding the natural environment and its effect on human habitation. The garbage produced by the Bank is categorised, and we separate it according to which waste can be recycled and which waste needs disposal. Our general waste management is supported by the respective municipal/urban councils and Central Environmental Authority-approved third party recycling service providers, while our wastewater is discharged in accordance with the National Water Supply and Drainage Board's regulations. A transparent tendering process is also used to choose the e-waste recycling service providers. The practice of repairing and reusing electronic equipment was continued in 2022 particularly due to the restrictions in foreign exchange for imports.

WATER CONSERVATION

During the year, 18,157 cu.m. of water has been consumed. Reducing the usage of precious water within the Bank network has been a priority at the Bank, where we have an acute awareness of the global water deficit. We have built a wastewater treatment facility to reuse wastewater for flushing toilets, and gardening. The installation of dual flush cisterns, auto flush toilets, and automatic faucets in Bank restrooms are some of the measures taken, and we intend to eventually roll out these features across the entire Bank network in future. The staff members are constantly reminded through strategically placed notices, to be mindful of their water usage. The Maintenance and Engineering Department continually monitors these procedures, and regularly handles water leaks and other associated matters.

ENERGY CONSERVATION AND EFFICIENCY IMPROVEMENT

Energy Conservation and Efficiency

At People's Bank we make every effort to maximise our energy efficiencies in order to improve our sustainability values. Electricity and transportation make up the bulk of our energy use, with the latter cost coming from our fleet of vehicles and business-related travel. While logistical issues and fuel shortages have decreased travel, we have continued to invest in electrical systems and automobiles with low energy consumption. As a part of our focus on renewable energy, a significant portion of this expenditure is concentrated on installing solar PV systems in bank branches. We are happy to report that this project has been expanded to branches around the nation as of 2022. (Solar was not installed in 2022, proposed to install 50 in 2023) We use the following procedures that are intended to achieve our energy conservation goals:

- Consider the "Energy Efficiency Ratio" of all new machinery and electronic equipment to reduce energy usage
- Deploy LED bulbs for lighting to save energy
- Purchase IT equipment with an energy-efficiency star rating
- Install inverter-technology energy-efficient air conditioners and perform preventative maintenance through on-time servicing and repairs
- Use environmentally friendly refrigerators
- Install soundproof, low-emission, and fuel-efficient generators with remote monitoring capabilities

Energy Source	Energy Type	Consumption Level	
		2022	2021
Renewable	Electricity	5,616.20 (GJ)	5,689.44 (GJ)
Non-renewable	Fuel – Diesel	2,900.33 (GJ)	
	Fuel – Petrol	680.96 (GJ)	3,933.52 (GJ)
Total		9,197.49 (GJ)	9,622.96 (GJ)
Energy intensity per employee 1 kWh = 3.6 MJ	Diesel (L)	38.6 (MJ per litre)	
	Petrol (L)	34.2 (MJ per litre)	7.64 (GJ)

FUEL AND EMISSIONS MANAGEMENT

We have taken measures to minimise the fuel consumption and emissions of our transport fleet and business travel, by effective route planning, the use of green vehicles, and bulk transportation of materials.

Bank has obtained the certification for meeting the requirement of ISO 14064-1:2018 by B – Advancy Certification Lanka Private Limited for the year 2022.

Reporting period: 1 January 2022 to 31 December 2022

Organisation:
People's Bank, Sri Lanka

Statement Number:
SL/PB/011020232

Date of Issue:
24 February 2023

Level of assurance:
Reasonable

Total Emissions:
4,366 tonnes of CO_2e

Direct Emissions:
373 tonnes of CO_2e

Energy Indirect Emissions:
1124 tonnes of CO_2e

Other Indirect Emissions:
2869 tonnes of CO_2e

Biogenic Emissions: Zero

Responsible Finance and Green Finance

Recognising that knowledgeable employees are essential for good financing, we train our staff on environmental responsibility, environmental due diligence in the loan process, and the indirect negative effects that may arise from a lack of screening while offering financial solutions. Additionally, the environmental impact of the Bank's business activities, our clients' CEA licences, and other pertinent environmental rules are evaluated before approval. Our rigorous controls guarantee that we are responsibly financing customers who will support our environmental policy. By offering specific loan programs to ecologically friendly initiatives like the purchase of solar power systems and the purchase of hybrid and electric vehicles, we also support green financing.

ACTIONS FOR CLIMATE

Bank has taken several initiatives to reduce the impact on climate change. Below points can be mentioned in the fight against climate change, meeting UN sustainable development goals by the Bank in year under review, Greening of Bank branch buildings Water conservation in branch offices Community service projects to provide clean drinking water and solar energy supplies to underprivileged schools in remote locations.

Reduction of paper use in Bank operations, and conservation of electricity in all buildings, promoting digital interactions with customers and staff Reduction of climate effects by monitoring and limiting the use of air conditioners.

COMPLIANCE

People's Bank has demonstrated 100% compliance with all environmental laws and regulations, and has not been subject to any fines or sanctions during the year.

FUTURE OUTLOOK

Environmentally conscious, sustainable practices have been employed right through the Bank's operational system and administration, and interactions with staff and customers. We realise that this is a vital facet of the Bank's personality and one of its greatest strengths looking forward to future developments. In the context of the past year when financial resources in general and foreign funds in particular were in short supply we saw the advantage of economising on the use of precious natural capital. We will continue to build on the successes we have achieved and ensure that People's Bank will truly be able to achieve the goal as the most sustainable Bank in the industry.

137 GOVERNANCE

138 / Risk Management Report

168 / Corporate Governance

194 / Board Subcommittee Reports

- 194 / Board Audit Committee Report (BAC)
- 195 / Board Human Resources and Remuneration Committee Report (BHRRC)
- 196 / Board Integrated Risk Management Committee Report (BIRMC)
- 197 / Board Executive Credit Committee Report (BECC)
- 198 / Board Nomination Committee Report (BNC)
- 199 / Board Investment Banking Committee Report (BIBC)
- 200 / Board Information Technology Committee Report (BITC)
- 201 / Board Strategic Planning Review Committee Report (BSPRC)

202 / Directors' Statement on Internal Control over Financial Reporting

204 / Auditor General's Assurance Report on Internal Controls

RISK MANAGEMENT REPORT

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 pandemics, war and conflicts between countries and international politics 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, cybersecurity 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 challenging economic environment, banks need to dynamically manage 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 uninterrupted service through the pandemic and economic stressed situation. 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 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
- Maintain risk governance within the best practices of industry benchmarks.

THE BANK'S RISK MANAGEMENT FRAMEWORK

The Bank has a robust risk management framework based on the Three Lines of Defence Model, Define Risk Universe, Risk Appetite Framework, Risk Governance Framework and Risk Evaluation models and techniques including stress testing to ensure a structured mechanism to manage all risk exposures of the Bank. This is an integrated and holistic system that manages risks effectively throughout the Bank.

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.

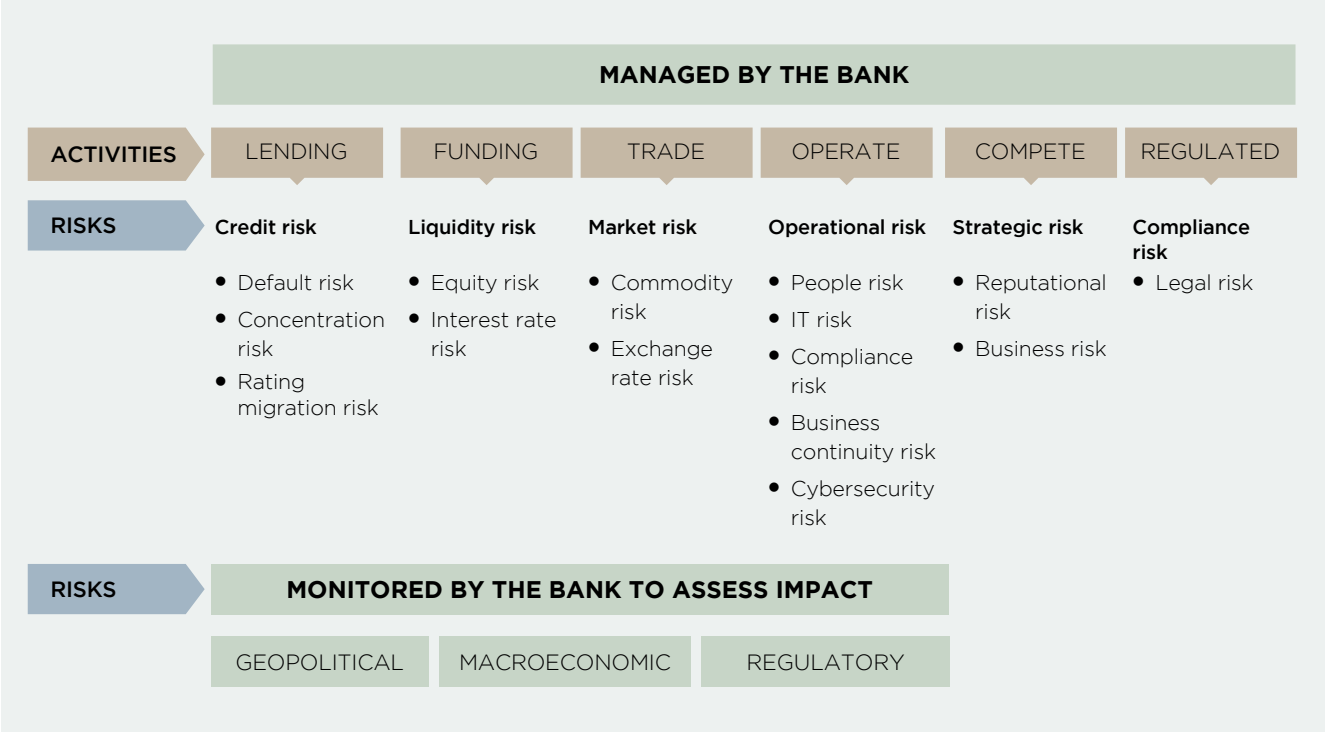
- Internal audit
- External audit
- Regulatory compliance

RISK CATEGORIES

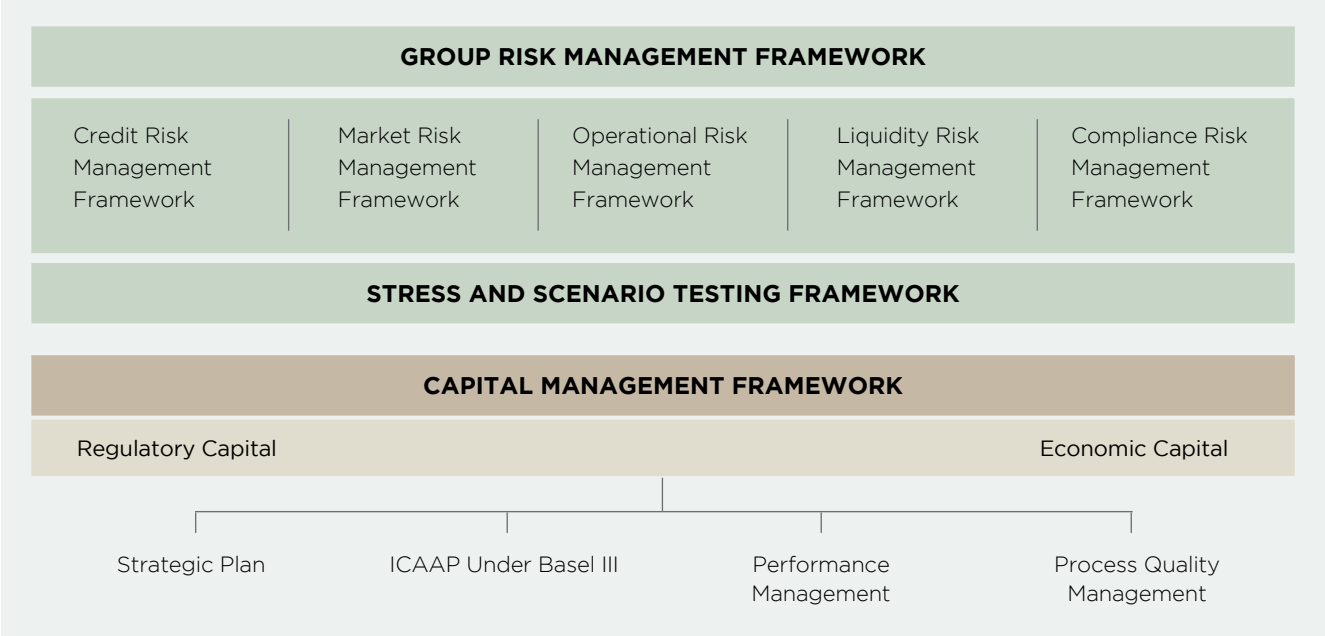
The main risk categories of the Bank are credit risk, market risk, operational risk, liquidity risk, strategic risk, compliance risk, reputational risk, legal risk, and IT risk including cybersecurity risk.

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.



RISK APPETITE FRAMEWORK



RISK APPETITE

Risk appetite expresses the aggregate level of risk that the Bank 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 Bank 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 Bank's overall business strategy, business environment, and stakeholder requirements.

The risk profile of People's Bank as at 31 December 2022 and 31 December 2021, compared to risk appetite, is given below:

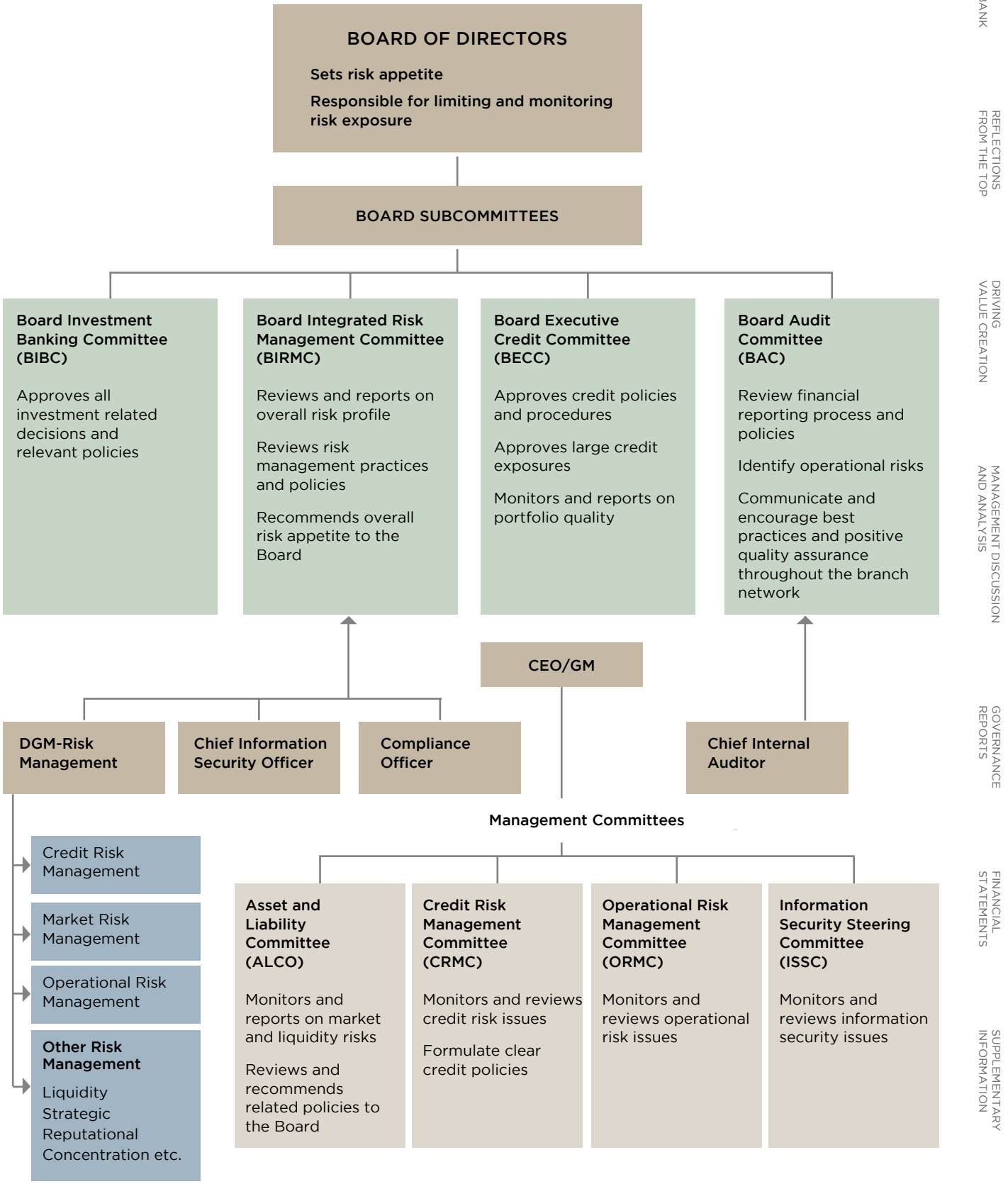
	Credit risk appetite			Position as at	
	High risk	Medium risk	Low risk	31 December 2022	31 December 2021
NPL/Total advances (without pawning) (%)	>6	3-6	<3.0	4.77	3.47
Overdue (%)	>12	6-12	<6	12.87	5.11
Provision cover (%)	<60	60-70	>70	79.9	74.8
P & L charge (%)	>50	35-50	<35	162.10	49.38
Concentration (HHI Method)	>0.25	0.25-0.15	<0.15	0.20	0.16
Recovery (%)	<10	10-20	>20	13.44	13.00
TOD excess (%)	>20	10-20	<10	11.76	18.45
Overseas exposure (OBU) (%)	>5	3-5	<3	1.97	1.29

	Operational risk appetite			Position as at	
	High risk	Medium risk	Low risk	31 December 2022	31 December 2021
Operational losses - Internal frauds	>5	1-5	0	4	4
Operational losses - External frauds (Pawning)	>300	150-300	<150	194	82
Total operational losses to total operational expenses (%)	>1.0	0.5-1.0	<0.5	0.3	0.54
Systems availability (%)					
High critical (%)	<97.5	97.5-99.9	>99.9	99.9	99.91
Medium critical (%)	<95	95-97.5	>97.5	99.2	99.53
Low critical (%)	<87	87-90	>90	100	100
Percentage of branch audits rated less than average	>10	5-10	<5	5.6	9.61

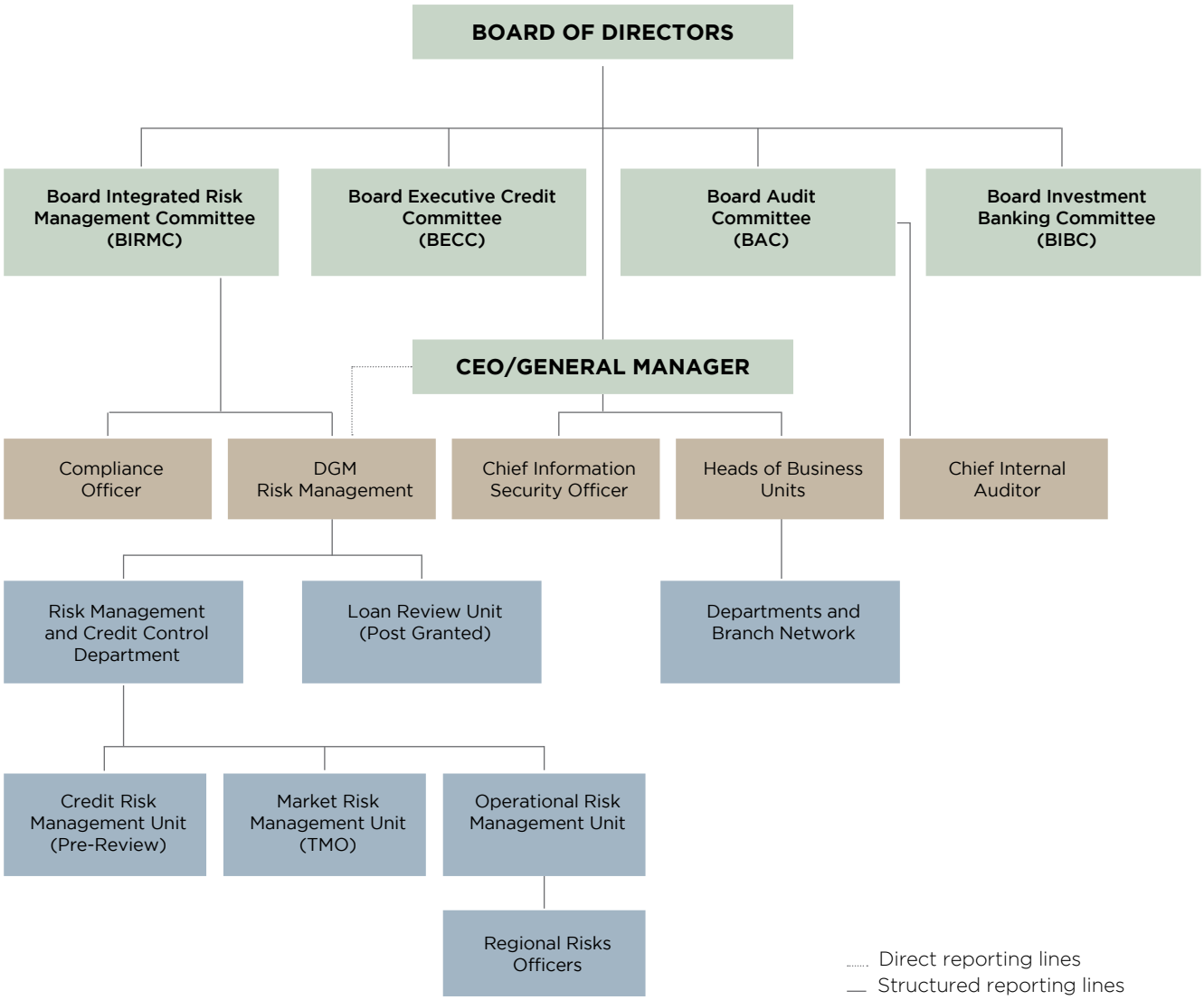
RISK GOVERNANCE

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 subcommittees 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.

The risk governance framework of People's Bank is illustrated below:



FUNCTIONAL STRUCTURE OF THE INTEGRATED RISK MANAGEMENT FRAMEWORK OF THE BANK



RISK CULTURE

We promote a strong risk culture throughout the Bank, as we believe that risk management is the responsibility of every employee within the organisation and institutionalise a positive risk culture within the Bank embodying values, beliefs, attitudes, and practices that drive highly effective risk decisions. 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 to their roles.

The principles that underpin the risk culture within our Bank include:

- Defined risk appetites for risks taken by the Bank.
- 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.

Stress testing 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 Bank's Internal Capital Adequacy Assessment Process (ICAAP). We assess the potential impact on the Bank'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 Bank'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 Bank.

STRESS TESTING

CREDIT RISK	MARKET RISK	LIQUIDITY RISK	OPERATIONAL RISK
• Deterioration in asset quality • Shifts in stage assets. • Impact from ECL elements • Increase in asset quality from top 10 borrowers. • Increase in asset quality from top 3 industries. • Increase in normalised HHI	• Movements in market interest rates • Movements in market exchange rates • Movements in market equity prices • Sensitivity analysis of pawning based on market gold price.	• Effects from 'hot money'/retail fund withdrawals • Effects from changes to asset and liability volumes • Effect from market value of Government Securities • Effects from volume changes to HQLA & net cash outflow	• 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 MAJOR STRESSED SCENARIOS

Impact on Core Capital, Total Capital and the Capital Adequacy Ratio
Impact on Statutory Liquid Asset Ratio, Liquidity Coverage 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 2022.

- Implementation of Recovery Plans (RCP) constituted by CBSL Direction No. 09 of 2021 to identify critical functions and critical shared services of the Bank and define recovery options for same to manage continuous business operations in a market wide or bank specific stress situation

The Bank'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.

- Further enhancement and streamlining of digitisation of work process with regard to credit evaluation under,
  - Retail Loan Origination System
  - Corporate Loan Origination System
- Completed review of Credit Procedure Manual in line with latest credit risk environment and conduct awareness sessions for credit line staff.
- Close monitoring and periodic review of established credit limits on exposure of State-Owned Enterprises (SOE)
- Strengthen of stress testing by covering more areas.

- Strengthen Information Security Unit headed by Chief Information Security Officer (CISO).
- Maintenance of ISO 27001:2013 Standard (Information Security Management System)
- Periodic review and assessment 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

FOCUS FOR 2023

To mitigate the heightened IT risk due to increased use of digital channels for banking, 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. Further, the Bank will maintain the ISO 27001: 2022 Standard (Information Security Management System) from 2023.

The credit post review function will be strengthened by relocating credit post-review unit at the Risk Management and Credit Control Department which encompass the close monitoring of the process.

Will continue close review of credit concentration of the Bank, geographical limits, Borrower Risk Rating based limits, limits on State-Owned Enterprises.

Market risk of credit portfolio will be managed by imposing floating interest rates with floor rates on lending whilst discouraging the granting of fixed-interest corporate loan facilities.

We expect to strengthen the Project Finance and Rehabilitation Unit by creating independence from credit units to proper management of stressed/sick businesses.

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.

The Bank will be undertaking 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 2022 (increase/ decrease/static)	Focus for 2023
Credit risk	(a) Accurate credit evaluations including credit risk pre-review (b) Pre-defined strong credit line with delegated credit authorities (c) Project Finance and Rehabilitation Unit (d) Re-structuring and Re-scheduling (e) BRR and periodic review and monitoring established portfolio limits on BRR. (f) Implementation of a comprehensive limit set-up including SOE limits (g) Realisable Securities/Collaterals (h) Existence of an approved Credit Procedure Manual (CPM) which had been updated. (i) Continuous follow-ups (Including post review) (j) Define credit risk appetite statement of the Bank (k) Continuous staff training and development	(a) BOD (b) BIRMC (c) BECC (d) BIBC (e) ECC (f) ALCO (g) CRMC (h) Risk Management and Credit Control Department (i) Credit Review Unit (Post grant)	Increased	Ensure a quality loan portfolio by strengthening credit evaluation process, quality of documentation and Providing continuous training for credit staff. Continuing the assignment of Regional Risk Officers (RROs) to assess credit quality at branch level and take remedial measures to rectify deficiencies if any. Maintain comprehensive limit set-up to ensure the credit risk is within the pre-defined risk appetite level of the Bank. Focus on credit in the areas of transformation requirement of the country. Proactive measurement for distress/sick loans by re-schedule, re-structure and rehabilitation.

Principal risk	How we manage it	Key controls (Governance Bodies)	Change in risk level from 2022 (increase/ decrease/static)	Focus for 2023
Credit concentration risk	Managing limits relevant to concentration risk - Portfolio wise - Sector/industry wise - SBL/MAL - 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 (f) Stop loss limits	(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 set-up for interest rate risk (a) Floating interest rates (b) Narrow down maturity mismatches (c) Deployment of D-Gap 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 maximise benefits in possible interest sensitivity trends.
Equity risk	(a) Portfolio Limit set-up – 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 set-up – NOP limits – Intraday and other limits – Counterparty limits – Dealer limits (b) FX Derivatives (c) FX Maturity Gap Analysis (d) VaR computation	(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 sufficient buffer (b) Managing SOE exposure (c) External funding arrangements (d) Manage ADR (e) Manage maturity Gaps (f) Contingency funding plan	(a) BOD (b) BIRMC (c) BIBC (d) ALCO	Increased	Ensure maintain of regulatory limits with a sufficient buffer. Consider liquidity position when granting credit facilities. Strengthen local and international bilateral relationships.

Principal risk	How we manage it	Key controls (Governance Bodies)	Change in risk level from 2022 (increase/ decrease/static)	Focus for 2023
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 (j) Fraud risk policy	(a) BOD (b) BIRMC (c) BAC (d) ORMC (e) Internal Audit (f) Risk Management Department	Increased	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. Continuous review of policies, procedures on operational risk.
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 (h) Performance base evaluations	(a) BOD (b) BHRMC (c) HR Department	Increased	Maintain HR operational excellence and retention of talents. Succession planning and application of strategic HRM methods. Implementation of new HRM system
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	Minimise the risk associated with manual process 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. Allocation of sufficient IS staff for IS Unit, Risk Management Department and Internal Audit Department.
Compliance risk	(a) Standards for integrity and ethics (b) Continuous awareness of staff (c) AML/KYC/CFT policies (d) Review of STR/CTR (e) Regional Compliance Officer	(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.

Principal risk	How we manage it	Key controls (Governance Bodies)	Change in risk level from 2022 (increase/ decrease/static)	Focus for 2023
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 behaviour relevant to financial institutions. Successful implementation of the new strategic plan. Prudential strategies to go with new vision statement of the Bank
Reputational risk	(a) Continuous local and international awards for multidimensional 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 (j) Efficient complaint management (k) Incorporation of key Reputational risk dimensions parameters to Risk Dashboard.	(a) BOD (b) BIRMC (c) Marketing Department	Static	Improve brand value in line with customer satisfaction, business dynamics through digital improvements. Monitoring of Reputational risk parameter within acceptable levels. Improve digital on boarding of customers

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. In addition, the current adverse macroeconomic factors have been seriously affected on increase of credit risk.

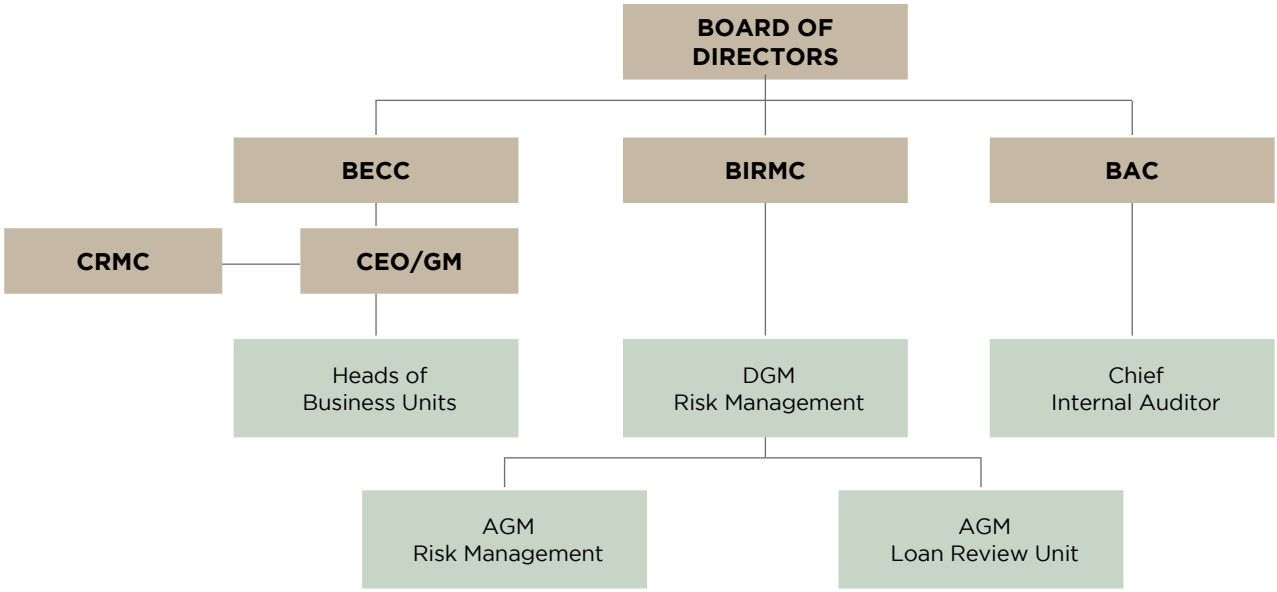
OBJECTIVES OF MANAGING CREDIT RISK

- Maintain a well-diversified portfolio through prudent management of the credit portfolio
- Achieve an optimal risk-reward pay-off through maximised returns
- Maintain a high portfolio quality and minimise Stage 3 classified loans
- Pre-identification of potential credit risk with changing macroeconomic and industry factors

MANAGING THE CREDIT RISK

Credit risk accounts for over 87% of the Bank's risk-weighted assets. Hence, credit risk management is 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 review/ monitoring.

GOVERNANCE STRUCTURE OF CREDIT RISK



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

1. 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.

2. Culture of responsible lending

A culture of risk awareness and responsible lending is nurtured across the Bank 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.

3. 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 BECC by the Board. The BECC has the authority to redelegate 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.

4. 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.

5. Credit risk mitigating and collateral management

Diverse methods are applied to mitigate potential credit losses from any given account, customer, or portfolio. These include structuring, 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.

6. 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. Risk Management and Credit Control Department independently done the pre-review and post-review of credit proposals. The credit officers have the relevant expertise and experience to manage the credit risks of their customers. Every credit officer/ relationship manager is responsible to monitor the credit of their respective portfolio of borrowers on an ongoing basis. Periodic credit review reports are submitted to BIRMC and CRMC for further review and monitoring of credit risk.

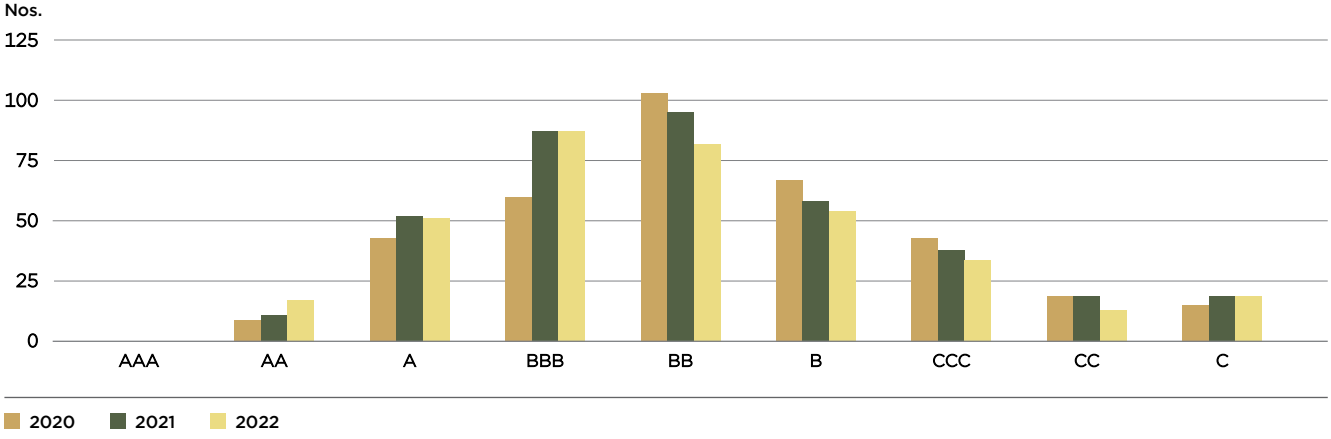
7. Impairment

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 Bank. Loan impairments are calculated and accounted by Finance Department and the verification are done by Risk Management and Credit Control Department.

CREDIT RISK PERFORMANCE REVIEW

Net loans and advances have downsized by 7.3% YOY basis to LKR 1,732.15 Bn. at the end of 2022, which represented above 55% of the total assets in the Statement of Financial Position at the end of the reporting period. Asset quality of the loan portfolio shows deteriorated position from 3.21% to 4.4% by the end of the year. Slow recovery of adverse economic condition due to negative macro variable coupled with dollar and rupee liquidity 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



Maximum credit exposure of People's Bank

	Risk rating	AAA	AA	A	BBB	BB	B	CCC	CC	C
Number of Corporate Customers	**31 December 22**		**17**	**51**	**87**	**82**	**54**	**34**	**13**	**19**
	31 December 21		11	52	87	95	58	38	19	19

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 credit rating. The Bank closely observes the credit rating migration of corporate customer portfolios in periodical manner. The number of corporate customers downgraded over the last five years is given in the table below:

year	Number of customers in transition	percentage of downgraded customers
2018	322	19
2019	318	20
2020	320	21
2021	321	11
2022	329	14

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 Stage 3 asset ratio is 12.78% for 2022.

Managing default risk

All our credit exposures are closely monitored on a continuous basis using risk management tools such as Stage 3 assets/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.

Further credit risk is managed by identifying early warning signals of distress business entities prior to trigger in default position and such entities are treated with comprehensive restructuring process which is resulting a smooth pay back method for the customer to overcome difficult situation. In case the business entity is unable to restructure, the rehabilitation process will be applied.

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 2022)

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	385	977,678	172,114	1,149,792	54.83
Without SOE	17	343	207,997	45,998	253,995	11.66

Position of Bank's Top 20 customers as at 31 December 2022

Year	Top 3%	Top 5%	Top 10%	Top 20%
Including SOE				
2021	60	68	77	83
2022	52	62	71	78
Excluding SOE				
2021	10	14	24	38
2022	11	17	29	45

Managing concentration risk

The measures adopted to monitor and control concentrations are the single borrower limit and the Herfindahl-Hirschman Index (HHI). HHI 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. Further, the Bank has implemented individual limits for industry/sectors as well as individual limit setup for SOEs to manage concentration risk.

Metric	Low concen-tration	Moderate concen-tration	High concen-tration
HHI	<0.15	0.15 - 0.25	>0.25

People's Bank's quarterly position for the financial year 2022

	31 March 2022	30 June 2022	30 September 2022	31 December 2022
Name concentration (with SOE)	0.14	0.18	0.15	0.15
Name concentration (without SOE)	0.01	0.01	0.01	0.01
Sector concentration (with SOE)	0.17	0.20	0.17	0.17
Sector concentration (without SOE)	0.14	0.14	0.13	0.13

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 BIRMC for review.

	Minor	Moderate	Major
Increase in Impairment Impact on CAR – In High-Risk Environment			
Transition from Stage 1 bucket to Stage 2 bucket	Magnitude of shock – 5%	Magnitude of shock – 10%	Magnitude of shock – 15%
Revised core capital ratio	11.74	11.59	11.45
Revised total capital ratio	16.16	16.01	15.87
Transition from Stage 2 bucket to Stage 3 bucket	Magnitude of shock – 5%	Magnitude of shock – 10%	Magnitude of shock – 15%
Revised core capital ratio	11.68	11.49	11.29
Revised total capital ratio	16.10	15.91	15.71
Simultaneous Transitions from Stage 1 bucket to Stage 2 bucket and Stage 2 bucket to Stage 3 bucket	Magnitude of shock – 5%	Magnitude of shock – 10%	Magnitude of shock – 15%
Revised core capital ratio	11.54	11.20	10.86
Revised total capital ratio	15.96	15.62	15.28
Shock in Probability of Default	Magnitude of shock – 5%	Magnitude of shock – 10%	Magnitude of shock – 15%
Revised core capital ratio	11.83	11.78	11.73
Revised total capital ratio	16.25	16.20	16.15
Shock in Loss Given Default	Magnitude of shock – 5%	Magnitude of shock – 10%	Magnitude of shock – 15%
Revised core capital ratio	11.81	11.73	11.66
Revised total capital ratio	16.23	16.15	16.08
Shock in Probability of Default and Loss Given Default	Magnitude of shock – 10%	Magnitude of shock – 20%	Magnitude of shock – 30%
Revised core capital ratio	11.73	11.59	11.44
Revised total capital ratio	16.15	16.01	15.86
Defaults by large borrowers	Magnitude of shock – 5%	Magnitude of shock – 7.5%	Magnitude of shock – 10%
Revised core capital ratio	11.71	11.63	11.54
Revised total capital ratio	16.13	16.04	15.96

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 prices, 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 book and banking book 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.

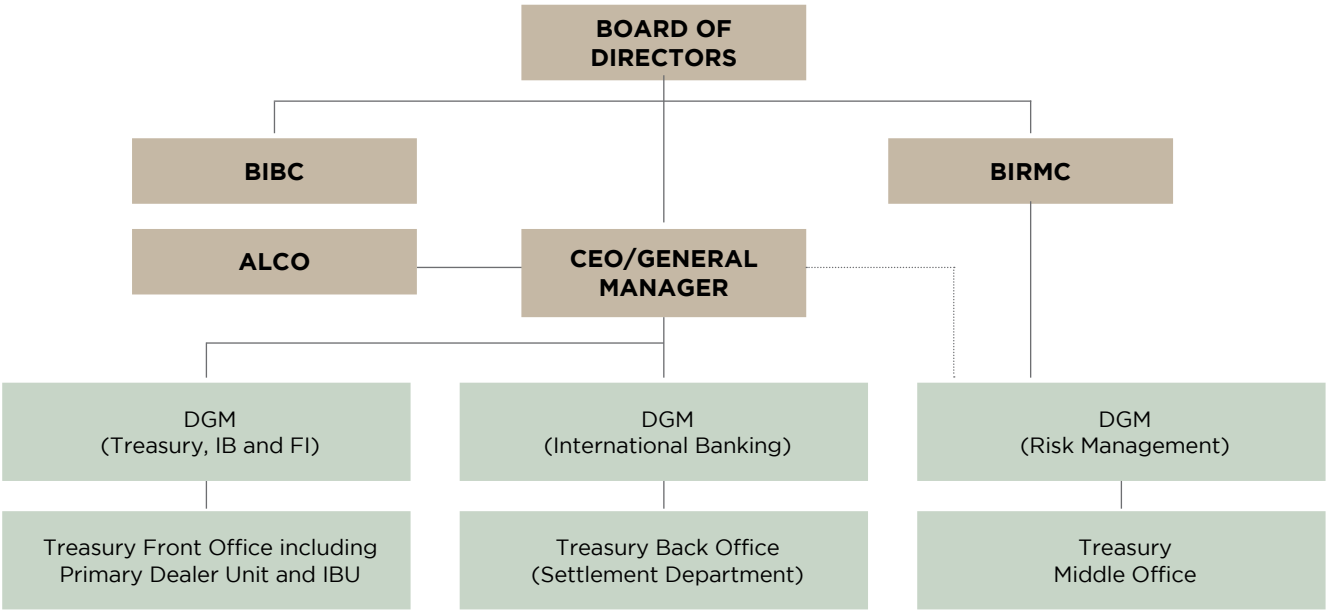
Objectives of market risk management

- 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

	2022		2021	
	Trading Book LKR Mn.	Banking Book LKR Mn.	Trading Book LKR Mn.	Banking Book LKR Mn.
Assets				
Treasury Bills	4,443	2,296	273	–
Treasury Bonds	872	898,577	1,004	573,471
SLDB	–	–	–	2,678
GOSL Bonds	–	7,689	–	7,689
Other investments	242	18,810	282	15,184
Liabilities				
Debentures	–	36,603	–	48,862

GOVERNANCE STRUCTURE OF MARKET RISK



At the 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 and 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.

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 referred 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 2022

Market risk	Market risk appetite	
	Approved limit	Year ending 31 December 2022
FX net open position	USD+ 30 Mn.	Complied
	USD - 25 Mn.	
Value at Risk (VaR) (Conf. Level 99%, 1 day) – Currency	USD 250,000	Breached*
– Interest rate	USD 150 Mn	Breached*
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 600 months millions	Complied
GOSL securities – Trading	LKR 250 Bn.	Complied
– Investment	LKR 1,000 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 723 Mn.	Complied
– Short-term limit	USD 181 Mn.	Complied
Present Value Basis Point (PVBP) Limit	LKR 25 Mn.	Complied
Gilt unit trust	LKR 2.5 Bn.	Complied
Corporate debt limit (Debentures)	LKR 15 Bn.	Complied
Reverse REPO limit for Non-Bank PDU	LKR 1 Bn.	
– Hair cut limit	10%	Complied
Limit for swap funds	75% of O/S for a tenor of less than 3 months	Complied
Interest rate risk (D-Gap +VaR on Fwd. FX)	LKR 16.5 Bn.	Complied
Investment value of share trading portfolio	Port1: LKR 1,000 Mn.	Complied
	Port2: LKR 1,000 Mn.	Complied
Stop loss limit (Share trading)	30%	Complied
Percentage of shares on the S&P SL20 Index	Min 25%	Complied

**Due to market volatility in exchange rates and interest rates.*

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, also known as systematic risk, refers to the uncertainty associated with any investment decision and it is not specially associated only with the company or the industry, but on various macroeconomic variables associated with the financial market, such as inflation, interest rates, the balance of payments situation, fiscal deficits and policies and geopolitical factors, etc. Market risk of the Bank is derived from the supply and demand forces mainly relevant to interest rates, exchange rates and equity prices in the market and it is having a high sensitivity on 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.

Subcategories 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

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 making decisions on 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.

Interest rate risk is measured and monitored monthly and taken up for discussion at ALCO meetings.

Earnings at risk over one year horizon (net impact of 1%)

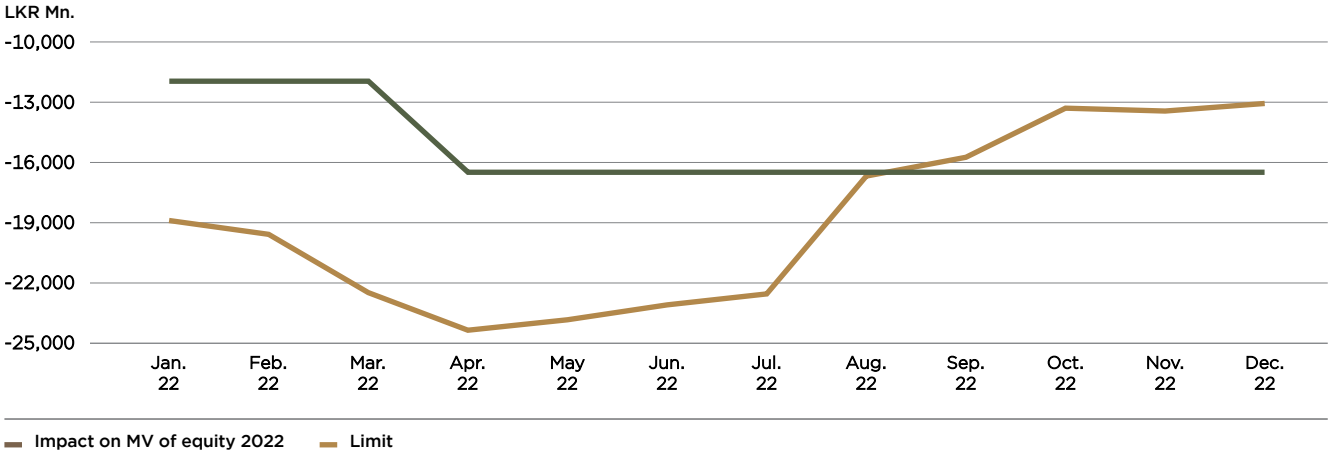
	Up to 1 month	1-3 months	3-6 months	6-12 months
Net assets (LKR Mn.)	93,263	(1,031)	(89,670)	(950,681)
Loss for change in 1% (LKR Mn.)	38.33	(1.72)	(336)	(7,130.11)

ALM mismatches

2022	Up to 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	386,829	269,247	434,129	216,713	189,525	293,750	917,701
Rate sensitive liabilities	270,278	523,799	1,167,395	23,453	27,971	128,856	296,031
Period gap	116,551	(254,552)	(733,265)	193,261	161,554	164,894	621,670
Cumulative gap	116,551	(138,001)	(871,266)	(678,005)	(516,451)	(351,557)	270,113

2021	Up to 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

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%
2022			
Impact on earnings (LKR Mn.)	4,327	8,654	13,054
Revised overall CAR (%)	15.86	15.41	14.97
2021			
Impact on earnings (LKR Mn.)	3,966	7,932	15,863
Revised overall CAR (%)	17.38	16.92	16.02

Interest rate risk review

Interest rate risk arises from unanticipated movements/fluctuations in the interest rates due to market conditions and the monetary policy measures undertaken by the Central Bank of Sri Lanka 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 and the necessary actions were in place at the right time

Accepting interest rate risk is an integral part of the banking business and may even be an important source of profitability and improve shareholder value if the market opportunities are captured at right time. 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.

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.

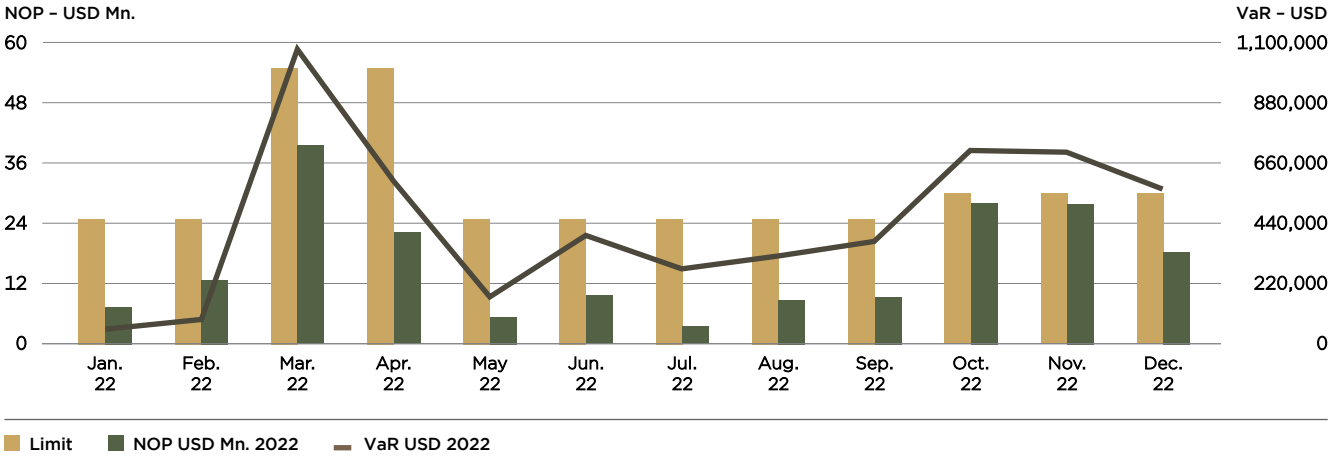
Position as at 31 December 2022

Currency	Net exposure FC equivalent ('000)	Net exposure Rupee equivalent ('000)
US Dollar	34,594	12,670,112
Euro	(412)	(160,866)
Great Britain Pound	(10,812)	(4,767,822)
Japanese Yen	23,956	66,599
Singapore Dollar	(596)	(162,816)
Chinese Yuan renminbi	(6)	(307)
Australian Dollar	(10,694)	(2,661,361)
Other	–	235,340

Exchange rate risk stress testing

	Magnitude of shock – 5%	Magnitude of shock – 10%	Magnitude of shock – 15%
2022			
Impact on earnings (LKR Mn.)	207	414	621
Revised overall CAR (%)	16.28	16.26	16.24
2021			
Impact on earnings (LKR Mn.)	151	301	452
Revised overall CAR (%)	17.82	17.80	17.78

MONTH END FX NOP AND DAILY VAR DURING 2022



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, industry and the entire country faced several challenges during the past year and the critical situations are managed by the Bank with the assistance of Central Bank of Sri Lanka. Further, the Bank Treasury ensured that the adherence to the strict FX limits, maintains FX net open position as well as individual currency positions 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 minimised and maintained within the Bank's risk appetite. Further, Treasury Middle Office independently verify and monitor the adherence to the FX position limits as an ongoing basis.

EQUITY PRICE RISK

A decline in market value of an equity or a share 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 Banking Committee (BIBC). 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 BIBC.

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%
Impact to maximum market value of equity portfolio (LKR Mn.)	69	138	275
Impact to fair value of strategic equities (LKR Mn.)	19	38	75
Total impact (LKR Mn.)	88	175	351

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 dollar positions, surging inflation and more over high deposit interest rates attracted investors to the banking system. 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.

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.

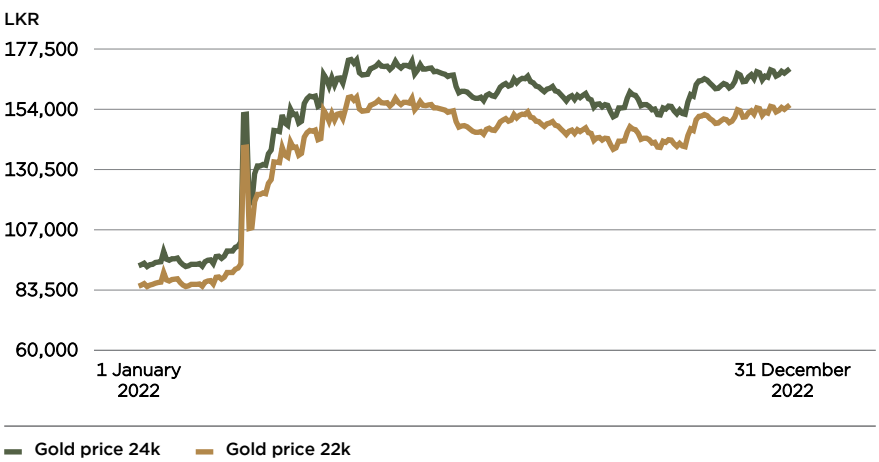
The post-disbursement measures include conducting independent valuation of pawned items regularly, daily verification of a sample of 5%, and regular auctioning of unredeemed articles.

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, analysed, and monitored by ALCO along with competitor product features. The Bank has highly sophisticated equipment in their pawning centres 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.

During the year 2022, the market value of gold is significantly increased and the LTV further declined. But considering the liquidity position of the market as well as the Bank and the exchange rate effect on the gold price, the Bank maintains a low pawning advanced amount compared to the market to manage commodity price risk.

GOLD PRICE MOVEMENT IN 2022



LIQUIDITY RISK

Liquidity risk arises due to the inability to meet 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 DGM Treasury, Investment Banking and Financial Institutions 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 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 Stage 3 asset 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 2022 (%)
Loans to deposit ratio	
LKR	74.64
Foreign currency	123.36
Commitments ratio	
Statutory liquid assets ratio	
DBU	21.37
FCBU	20.05

	DBU (LKR Mn.)				OBU (USD '000)			
	Balance as at 31.12.2022	Minor	Moderate	Major	Balance as at 31.12.2022	Minor	Moderate	Major
Magnitude of shock (%)		5	10	15		5	10	15
Liquid assets	540,471				70,182			
Total liabilities	2,529,374				349,997			
Scenario I – Increase in total liabilities								
Increase in liabilities		126,469	252,937	379,406		17,499.85	35,000	52,500
Revised total liabilities		2,655,843	2,782,311	2,908,780		367,497	384,997	402,497
Revised liquid assets		540,471	540,471	540,471		70,182	70,182	70,182
Liquid asset ratio after shock (%)	21.37	20.35	19.43	18.58	20.05	19.10	18.23	17.44
Scenario II – Fall in liquid assets and increase in other assets while Liabilities remain same								
Fall in liquid assets		27,024	54,047	81,071		3,509	7,018	10,527
Revised total liabilities		2,529,374	2,529,374	2,529,374		349,997	349,997	349,997
Revised liquid assets		513,447	486,424	459,400		66,673	63,164	59,655
Liquid asset ratio after shock (%)	21.37	20.30	19.23	18.16	20.05	19.05	18.05	17.04
Scenario III – Fall in total liabilities and liquid assets by the same amount								
Fall in the liabilities		126,469	252,937	379,406		17,500	35,000	52,500
Revised total liabilities		2,402,905	2,276,437	2,149,968		332,497	314,997	297,497
Revised liquid assets		414,002	287,534	161,065		52,682	35,182	17,682
Liquid asset ratio after shock (%)	21.37	17.23	12.63	7.49	20.05	15.84	11.17	5.94

Liquidity risk review

Liquidity risk is defined as the risk of incurring losses resulting from the inability to meet payment obligations in a timely manner when they become due or from being unable to do so at a sustainable cost. 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 behavioural maturity of assets and liabilities, key liquidity ratios, monthly liquidity forecasts and gaps are reviewed at Asset and Liability Committee (ALCO) meetings. In 2022 the Bank has maintained Capital Adequacy Ratios above the regulatory minimum levels. Further Statutory Liquid Assets Ratios also maintained above the required level. 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.

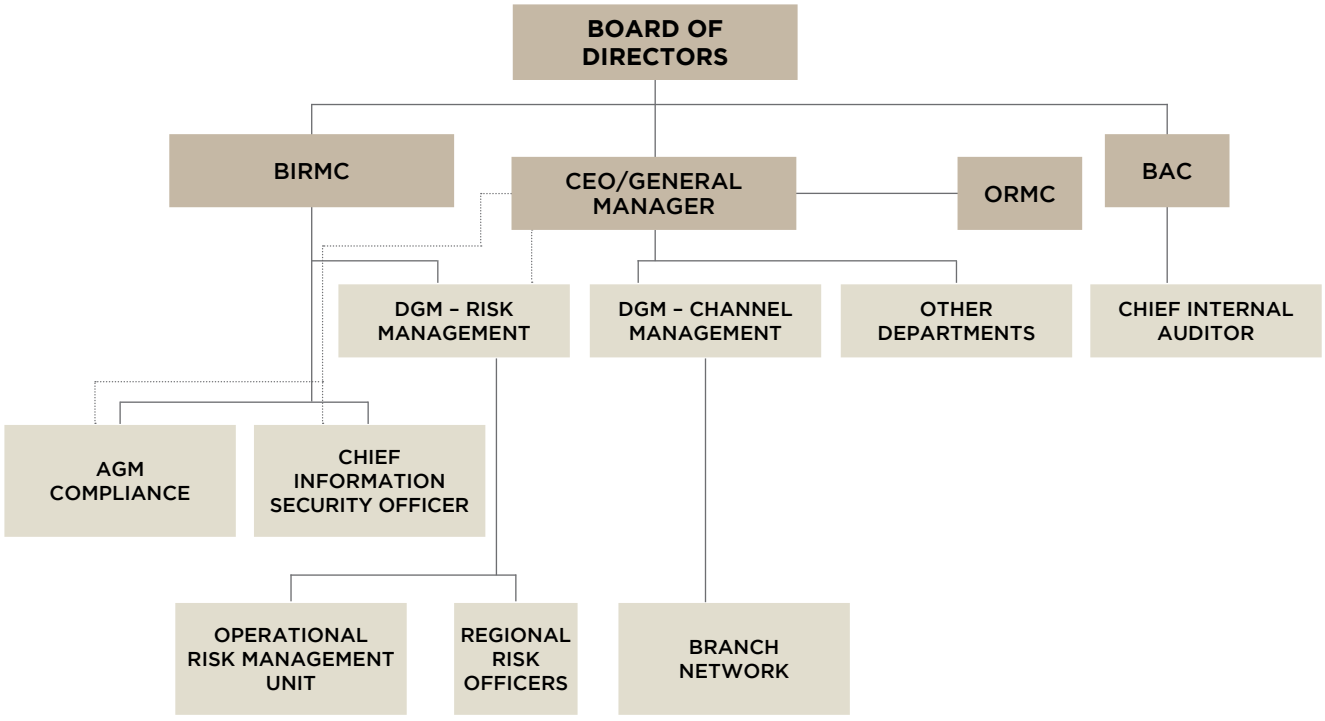
Objectives of operational risk management

- 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



..... Direct reporting lines
— Structured reporting lines

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.

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.

Mitigating operational risk

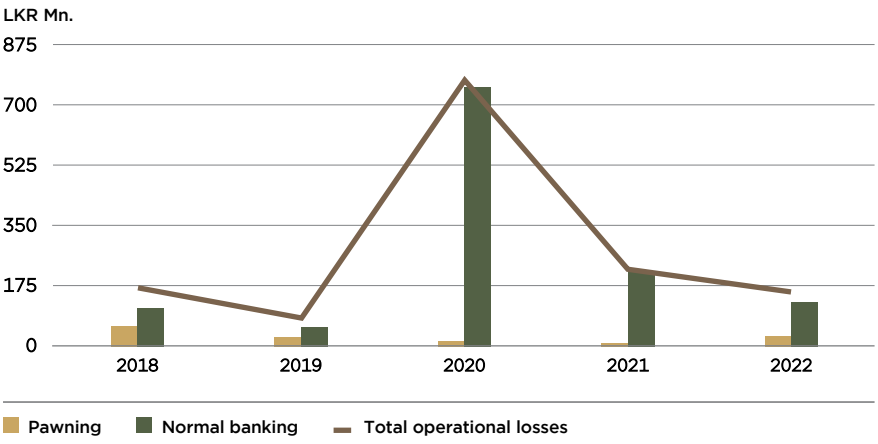
Risk mitigation policies and programmes are implemented to maintain a sound operating environment within the Bank. These include:

- 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

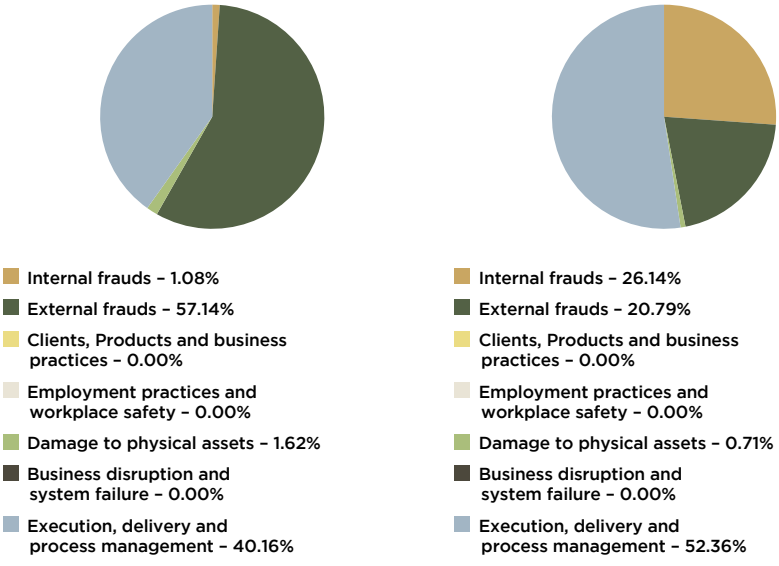
Risk reporting

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 and Credit Control 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 Operational Risk Management Committee (ORMC). Based on the potential impact and frequency of the risk, control failures are reported to the ORMC.

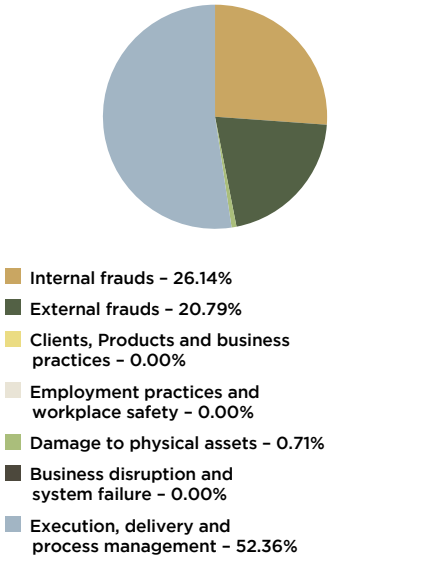
OPERATIONAL LOSSES



NUMBER OF OPERATIONAL LOSSES BY EVENT – 2022



VALUE OF OPERATIONAL LOSSES BY EVENT – 2022



Loss event	2022				2021			
	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	1.08	41.59	26.14	4	1.84	52.64	23.48
External frauds	212	57.14	33.07	20.79	100	46.08	121.07	54.00
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	0	0.00	0	0.00
Damage to physical assets	6	1.62	1.13	0.71	6	2.76	0.37	0.17
Business disruptions and system failures	0	0.00	0	0.00	4	1.84	0.35	0.16
Execution, delivery, and process management	149	40.16	83.31	52.36	103	47.47	49.79	22.21
Total	371	100.00	159.1	100.00	217	100.00	224.22	100.00

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 2022 was LKR 159.1 Mn. The most significant sources of losses (by value) for the year 2022 are external frauds, internal frauds and execution, delivery and process management of which mainly include,

- Correction of the Backlog balances amounting LKR 38.1 Mn. in GLs of four branches by Finance Department.
- LKR 36.8 Mn. of long outstanding amounts from previous years transferred to operational losses during the year 2022
- LKR 0.8 Mn. of operational losses materialised from credit related activities, during previous years

Apart from the above, the total operational losses reported for the year was only LKR 83.4 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	99.9%	>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	99.2%	>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 strengthens 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:

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 (will be complied to 27001: 2022 from 2023), 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 a 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, liquidity 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.

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

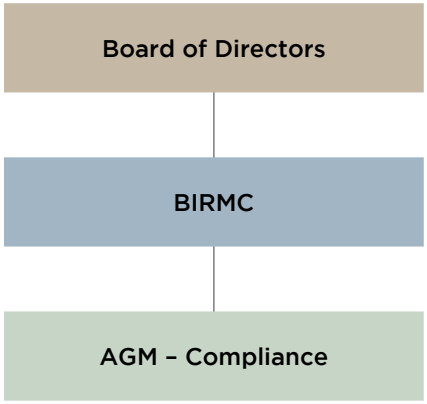
Compliance risk arises due to non-compliance with applicable laws, regulations, Codes of Conduct, and standards of good practice resulting in financial loss and reputational loss. Compliance helps to maintain and enhance the reputation of the Bank.

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.

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
- 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

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 that need improvements to mitigate strategic risk.

Group risk management

The Bank's main subsidiaries, People's Leasing & Finance 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 2022

	Credit risk	Market risk	Operational risk	Compliance risk	Strategic risk	Reputation risk
People's Bank	Moderate	Moderate	Moderate	Low	Low	Low
People's Leasing & Finance	Moderate	Moderate	Moderate	Low	Moderate	Low
People's Insurance	Low	Low	Moderate	Low	Moderate	Low

CORPORATE GOVERNANCE

CHAIRMAN'S MESSAGE ON CORPORATE GOVERNANCE

From a macro-economic perspective, 2022 was the culmination of economic stresses and stress events over the last several years. It was a year which saw the country's external reserve position fall to a level previously unseen, the rupee devalue by close to 80.0%, inflation soar to nearly 70.0%, policy rates increase in a manner unprecedented in view of curtaining inflationary pressures and, all in all, resulting in the country's credit rating fall to a historic low and the economy contract by close to 11.0% which is deepest seen since independence. 2022 was therefore not a year where top line or bottom-line was the prime focus but safeguarding customer interests in their absolute time of need was, strengthening liquidity and the overall risk management and the governance framework of the Institution for its long-term sustainability was, and where improving efficiency and productivity at every instance possible was at the core of all conversations and decisions taken. All these considered, including the added burden shouldered as a responsible State Institution - we are pleased with our 2022 results both on a quantitative and, more importantly, a qualitative front.

During the year under review there were nineteen (19) Board meetings held to ensure stability and continuity of the Bank during this complex environment. These were in addition to the numerous other Sub-Committee deliberations. During the year under review, the Board spent considerable time on assessing the implications of the macro-economic conditions, reviewing policy frameworks, and strengthening the overall risk management and governance framework. Being the pioneer, furthering our digitalisation efforts was also a key point of discussion. Resignations of two Board members took place during March and April 2022 but was later mostly filled. At present, there are four (4) Board positions to be filled which we reasonably expect that the Ministry of Finance will do so in the immediate near term.

COMPLIANCE

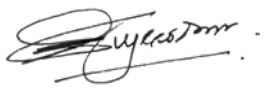
This report details the "factual finding report" set out by the Auditor General in compliance with the Banking Act Direction No. 11 of 2007 for Licensed Commercial Banks. It justifies our approach to governance in practice, operations of the Board in 2021 and dischargement of its duties during the year. It also determines the level of compliance.

As leading State Bank in Sri Lanka, People's Bank has gone beyond regulatory compliance and is guided by voluntary adoption of relevant ESG frameworks and standards to ensure sustainability.

THE WAY FORWARD

With every crisis comes an opportunity and for Sri Lanka, this critical moment is a chance to reset its development model towards green, resilient, and all-inclusive growth. People's Bank – being flag bearer when it comes to National interest and being true to its ethos of being the Pride of the Nation – will continue to play its role as the country looks to revives itself and rebuild the lives and livelihoods of its citizens of this country!

We look forward!



Sujeewa Rajapakse
Chairman

2 March 2023
Colombo

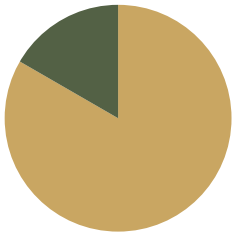
In year 2022, the Bank was able to navigate through the challenges of the unpredictable market conditions effectively and achieve steady growth. The Bank emerged more resilient and reinvigorated, and the confidence in our capabilities is reflected not only in our numbers but also in the trust that our customers have placed in us. The circumstances have pushed the Bank to rise above and beyond our own limitations and to align our sustainability agenda with our business and technological transitions and organisational growth.

The Board helped steer the Company's strategy and improve its risk profile in several areas in 2022 while emphasizing on employees' safety and wellbeing, supporting customers, and being fully committed to the economic revival plan of the Government. Giving back to the society has never been more important. In this regard, 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.

Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. 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.

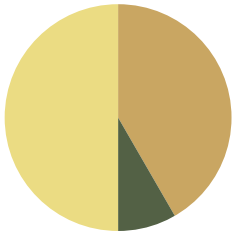
THE BOARD COMPOSITION

GENDER DIVERSITY



- Male – 83%
- Female – 17%

BOARD BALANCE



- Independent – 42%
- Non-independent – 8%
- Executive – 0%
- Non-Executive – 50%

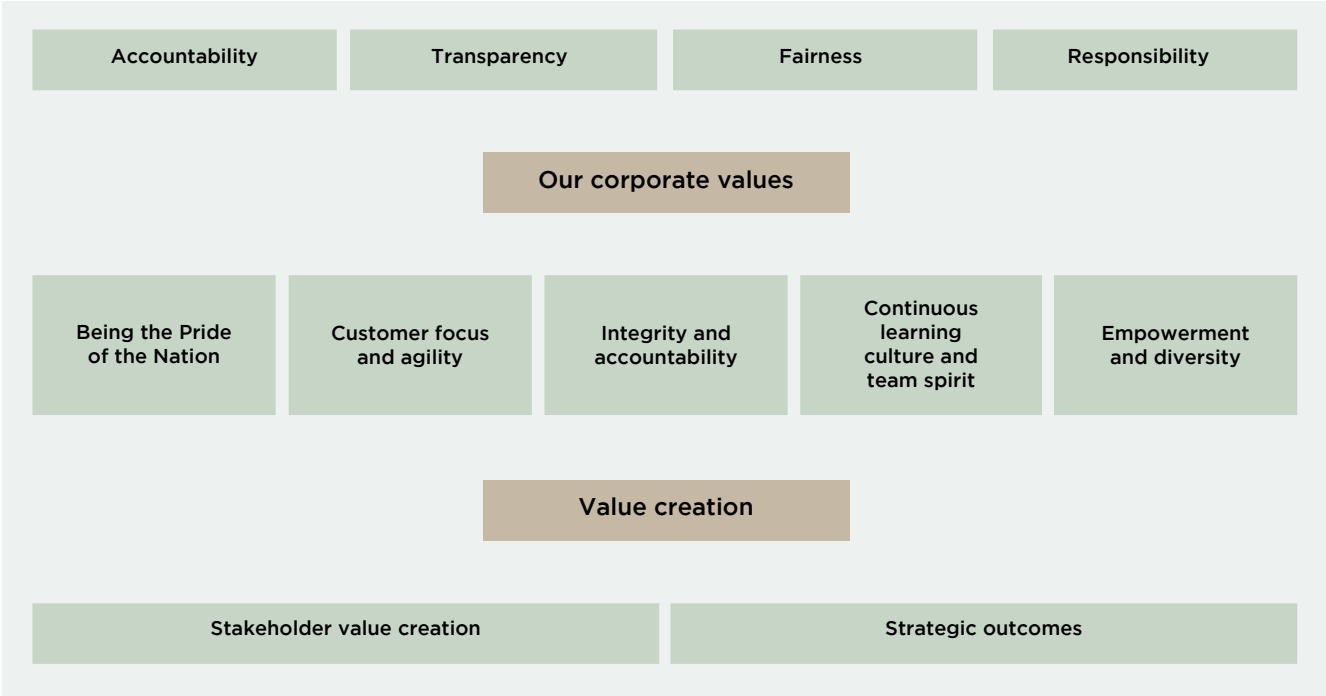
AGE DIVERSITY

- >60 – 33%
- 50-60 – 33%
- 40-50 – 33%

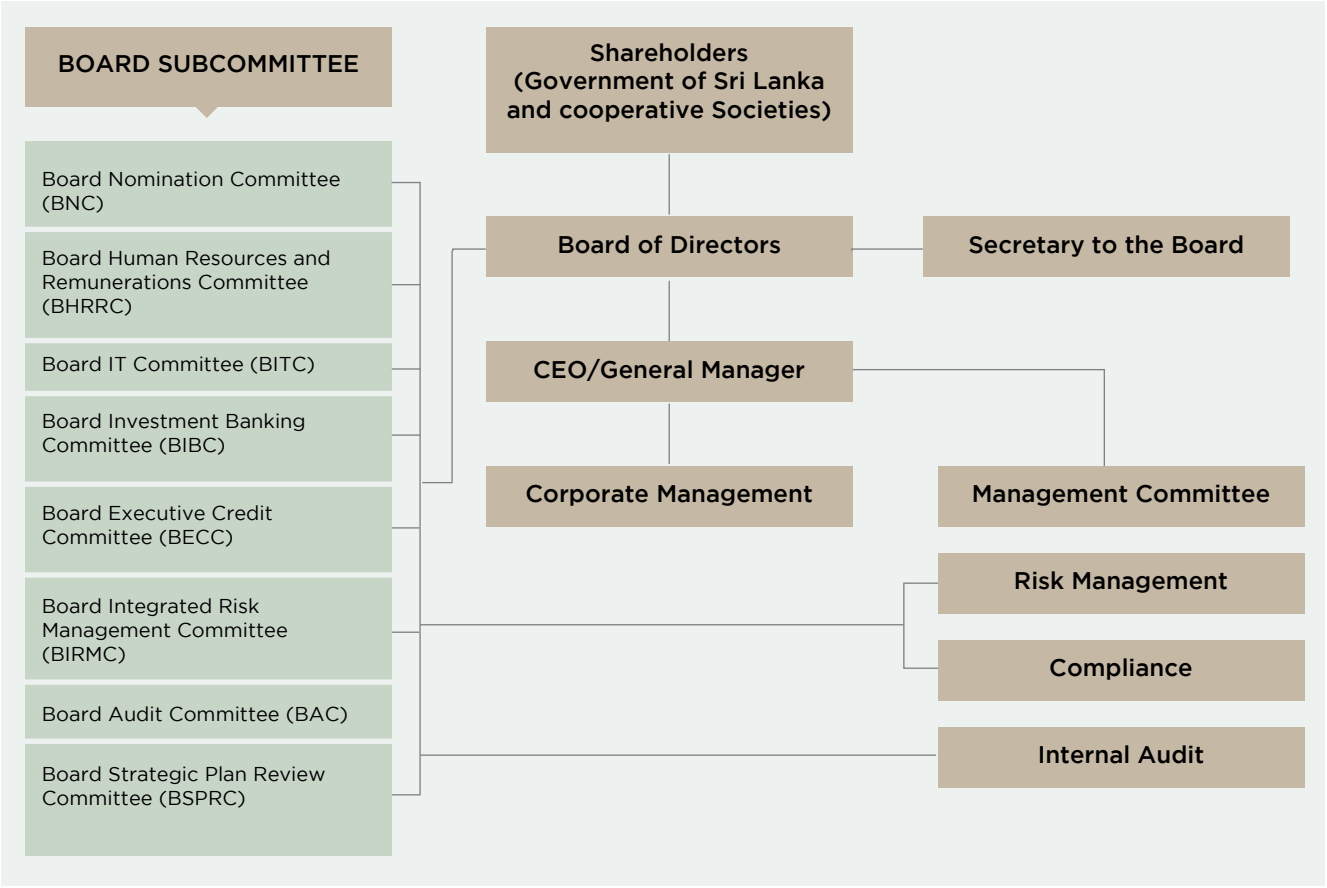
Finance and Accounting	4/6
Business Administration	2/6
Audit	1/6
HR and Management	3/6
Law	2/6
Economics	3/6
Commerce	1/6
International Development	1/6
Budgeting	1/6

GOVERNANCE FRAMEWORK

Regulations	Voluntary Standards	Internal Framework	Internal Mechanisms
• People's Bank Act No. 29 of 1961 (as amended) • Banking Act No. 30 of 1988 (as amended) • CBSL Directives • Exchange Control Act No. 24 of 1953 • Financial Transactions Reporting Act No. 6 of 2006 • Prevention of Money Laundering Act No. 5 of 2006 • Banking Act Direction No.11 of 2007 on Corporate Governance for Licensed Commercial Banks	• Code of Best Practice on Corporate Governance issued by the Chartered Accountants of Sri Lanka in December 2017 • Global Reporting Standards of the Global Reporting Initiative • UN Sustainability Development Goals (SDGs) • The International <IR> Framework issued by IFRS Foundation [formerly by the International Integrating Reporting Council (IIRC)]	• Board Charter • Sub- committees and management committees terms of references • Code of Business Conduct and Ethics for Directors • Comprehensive policies and procedures • Code of Ethics for employees • Customer Charter • Internal Audit • Internal Controls	• Risk Management • Strategic and Corporate Planning • Budgeting • Human Resource Management • IT Governance • Stakeholder engagement



CORPORATE GOVERNANCE STRUCTURE



The Bank's corporate governance structure consists of two primary layers. The Board provides oversight and deliberates with the Corporate 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 2022

- Review and approve the Bank's policies, procedures, key metrics where necessary in line with the Bank's strategic plan.
- Adjusting to the changing the macroeconomic conditions.
- Effective management of risks.
- Embedding sustainability.

ASSURANCE

The Auditor General provides assurance on the Financial Statements of the Bank and on the Directors' Statement on Internal Controls over Financial Reporting which are published on pages 207 to 208 and 202 and 203 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 WITH THE CODE OF BEST PRACTICE FOR CORPORATE GOVERNANCE THE BOARD

(Principle A.1)

Board of Directors of People's Bank is 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 31 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 26 to 27.

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 19 times during the year 2022, 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 2022 are detailed below:

Name of Director	Status	Board meeting	BAC	BHRRC	BIRMC	BECC	BNC	BIBC	BITC	BSPRC
Mr Sujeewa Rajapakse	Independent Non-Executive	19/19	–	9/9	–	–	6/6	–	–	4/4
Mr Kumar Gunawardana	Independent Non-Executive	19/19	–	9/9	–	24/24	4/4	3/3	5/5	–
Mr Sudarshan Ahangama*	Independent Non-Executive	4/4	2/2	–	–	–	2/2	–	–	–
Mr Isuru Balapatabendi	Independent Non-Executive	17/19	–	–	4/4	–	–	3/3	–	4/4
Mr Keerthi Goonatillake	Independent Non-Executive	18/19	5/5	–	–	22/24	4/4	–	5/5	2/4
Mr Manjula Wellalage	Independent Non-Executive	17/19	–	9/9	–	19/24	–	–	–	–
Mr K A Vimalenthirarajah**	Non-Independent Non-Executive	1/2	1/2	–	–	–	–	–	–	–
Ms Bhadranie Jayawardhana***	Non-Independent Non-Executive	3/4	–	–	–	–	2/2	–	–	–
Ms Visakha Amarasekere	Non-Independent Non-Executive	15/15	3/3	–	4/4	–	–	2/2	–	–
Mr Dushmantha Thotawatte	Independent Non-Executive	10/10	3/3	–	1/1	–	–	–	–	–

* *Mr Sudarshan Ahangama resigned w.e.f 7 April 2022*

** *Mr K A Vimalenthirarajah resigned w.e.f 2 March 2022*

*** *Ms Bhadranie Jayawardhana resigned w.e.f 6 May 2022*

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:

Governance	Strategy and directions	Risk management accountability and control
Review of governance arrangements	Approval of strategy and annual budgets	Approval of financial statements, other updates to market and recommendations on dividends
Terms of reference for and membership of Board committees	Authorisation of acquisition and disposal activity	Approval of authority levels, financial, and treasury policies
	Affirmation of risk management strategies and risk appetite	Review of internal control and risk management
		Approval of health and safety policies

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 194 to 201 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 the 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 Management Committee and the Audit Committee pertaining to risk management.

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, is 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.

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 plays 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 the 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 26 and 30 of the Annual Report.

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 of 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
- 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 Directors 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 that 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 by 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.

Appointments to the Board

(Principles 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.

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 26 and 27.
- Number of Board and Committee meetings held in year 2022 and attendance on page 172.
- Names of committees in which the Director serves as the Chairman or a member on page 171.
- Related party transactions on pages 294 to 298.

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

(Principles 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 195. The aggregate remuneration paid to the Directors is given on page 192.

Relations with shareholders

(Principles 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 294 to 298.

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 requirements 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 for Financial Reporting page 206 includes a statement of their responsibilities
- Directors' Statement on Internal Control over Financial Reporting on pages 202 to 203.
- Management Commentary on pages 40 to 136.
- Statement of going concern of the Company is set out in the Statement of Directors' Responsibility on page 206.
- Related Party Transactions are disclosed on pages 294 to 298 of the Directors' Report and in Note 43 in the Financial Statements

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 management 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 page 196.

BIRMC is supported by the Risk Management Department of the Bank. A comprehensive report on the Bank's risk management process is included on pages 138 to 167 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 the scope and results of such audits and its effectiveness under review. 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

(Principles 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 168 to 204 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

(Principles 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.

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 – Head of Finance's Review on pages 68 to 71
Principle 2	–	Environment – Natural Capital on pages 129 to 136
Principle 3	–	Labour Practices – Human Capital on pages 95 to 107
Principle 4	–	Society – Social and Relationship Capital on pages 108 to 136
Principle 5	–	Product Responsibility – Social and Relationship Capital: Customer on pages 108 to 114
Principle 6	–	Stakeholder identification, engagement and effective communication, Stakeholder Engagement on pages 47 to 49
Principle 7	–	Sustainable reporting to be formalised as part of the reporting process and to take place regularly – About Our Integrated Report on pages 3 to 6

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 2022-2024 in place. Bank's strategic objectives have been communicated to all Business Heads by the Strategic Planning and Research Department. Further, awareness session on strategic plan 2022-2024 had been conducted for officers in AGM and above level at the staff training college.	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. Risk Management procedures and mechanisms are in place. Board has reviewed the Risk Management Policy of the Bank. The Strategic Plan 2022-2024 includes the overall business strategy, measurable goals, for at least next three years including 2022.	Complied with
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 DGM (Risk Management) 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. Further, Risk Management Policy of the Bank had been reviewed as mentioned in (b) above.	Complied with
d.	Communication with all stakeholders	The Board has approved and implemented an effective Corporate Communication Policy with all stakeholders. The Board has reviewed Communication Policy at their meetings.	Complied with
e.	Internal Control System and Management Information Systems	Internal Control Systems and Management Information System have been reviewed by IAD and has been submitted to the Board Audit Committee. Further, audit of Finance and Management Accounting Department including Management Information Department 2021 had been submitted to the 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. Further, KMP performance had been evaluated.	Complied with

Section	Principle	Compliance and implementation	Complied
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, Code of Best Practice on Corporate Governance 1.3 includes the provisions relating to authority and responsibilities of 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		
	(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, two of whom shall be nominated by the Minister of the subject of Co-operatives and selection, nomination and recommendations of all KMPs are been processed by the BNC and the approval has been obtained from the Board.	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.	Self evaluation forms of Board of Directors had been obtained and to be submitted to the Board.	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 invited 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 are in place 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 1.3, details of existing Directors etc. Draft supervisory concerns raised at the statutory examination conducted as at 28 February 2022, has been submitted to the Board Meeting held on 22 December 2022. 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

Section	Principle	Compliance and implementation	Complied
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 Rajapaksha, an Independent, Non-Executive Director, has been re-appointed as the Chairman of the Bank by Minister of Finance, Economy and Policy Development with effect from 21 December 2022. Acting CEO/GM, Mr Clive Fonseka (appointed by the Board at Board Meeting held on 23 December 2022 and extended acting appointment by six months) 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 19 meetings during the year 2022. There were 69 circular resolutions passed during the year 2022 and duly ratified at the next board meeting.	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. As per the section 2.16 (b) of Code of Best Practice in Corporate Governance 1.3, provision is in place to enable all Directors to include matters and proposals in the Agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with
3.1 (v)	Notice of meetings	Duties of the Secretary to the Board in the Code of Best Practice in Corporate Governance 1.3 includes a provision that preparing the calendar of regular Board meetings for each year 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. Further, due notice has been given for the 7 special and emergency Board meetings held during the year 2022.	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 2022. Some Directors have attended online and none of the directors have not attended three consecutive meetings.	Complied with

Section	Principle	Compliance and implementation	Complied
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 promoted Ms Shyama Wijekoon, Acting Board Secretary as Secretary to the Board of Directors at the Board Meeting held on 22 December 2022.	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 1.3) approved by the Board includes a provision in this regard. Further, all Board members have access to the Board minuets and Board Sub Committee minutes through Board Pack.	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	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.	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
3.1 (xiv)	Inform Central Bank if there are solvency issues	Board is aware the necessity of informing 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.	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

Section	Principle	Compliance and implementation	Complied
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 in the Annual Report 2022 on page 177 to 193.	Complied with
3.1 (xvii)	Self-assessment of Directors	Board Secretary annually obtains the evaluation forms from all the Directors. The evaluation forms of all directors are available for the year 2022, to be submitted to the Board.	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 2022. The names of directors who have held directorships up to 31 December 2022 are as follows. Mr Sujeewa Rajapakse Mr Kumar Gunawardana Mr Sudarshan Ahangama (resigned w.e.f. 7 April 2022) Mr Isuru Balapatabendi Mr K A Vimalenthirarajah (resigned w.e.f. 2 March 2022) Mr Keerthi Goonatillake Mr Manjula Wellalage Ms Badrani Jayawardena (resigned w.e.f. 6 May 2022) Ms Visakha Amarasekere (appointed w.e.f. 2 March 2022) Mr Dhushmantha Thotawatte (appointed w.e.f. 8 July 2022)	Complied with
3.2 (ii) (a) and (b)	Period of service of a Director	None of the directors of the Board has exceed the service period of nine years. N/A	Complied with
3.2 (iii)	Board balance	There are no Executive Directors in the People's Bank Board.	Complied with
3.2 (iv)	Independent Non-Executive Directors	During the year, the Board comprised of adequate number of independent non-executive Directors to comply with the direction. Independent ,Non-executive Directors during year 2022 are, Mr Sujeewa Rajapakse Mr Kumar Gunawardana Mr Sudarshan Ahangama Mr Isuru Balapatabendi Mr Keerthi Goonatillake Mr Manjula Wellalage Mr Dhushmantha Thotawatte	Complied with
3.2 (v)	Alternate Independent Directors	There are no provisions in the People's Bank Act to appoint alternate Directors and as such, such a situation has not arisen during the year.	Complied with

Section	Principle	Compliance and implementation	Complied
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 and representative from the Minister of Finance and the Ministry of Trade are non- independent directors where as other directors are independent.	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 2022 the required quorum has been complied with at all Board meetings.	Complied with
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 2022 on page 172.	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 resign 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 2022.	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 affidavits of Directors, 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

Section	Principle	Compliance and implementation	Complied
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 2022.	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
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 on 15 June 2022 for evaluating Both subcommittees.	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 respective Minister in Charge and Board of Directors.	Complied with
3.5 (ii)	Non-Executive Chairman and appointment of a Senior Independent Directors	Mr Sujeewa Rajapakse, who has been re-appointed as the Chairman of the Bank with effect from 21 December 2022 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 Board members and with KMP and their CFM has been disclosed and quarterly submitted to the BIRMC.	Complied with
3.5 (iv)	Self Evaluation Process of the Board	Board Secretary annually obtains the self-evaluation forms from all the Directors and self-evaluation forms include these criteria.	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

Section	Principle	Compliance and implementation	Complied
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 Secretary annually obtains the evaluation forms from all the Directors. The evaluation forms of all directors are available for the year 2022, to be submitted to the Board.	Complied with
3.5 (viii)	Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors	Board Secretary annually obtains the self-evaluation forms from all the Directors and since all Directors are non-executive separate sections had not been included in the self-evaluation form.	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 management 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. Further, treasury representative represents the Board and accordingly views of shareholder are communicated to the Board.	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
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, 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. The Annual Report 2022 includes individual reports of each Board sub committees and such report includes a summary of its duties, roles and performance of each committee from page 194 to 201.	Complied with

Section	Principle	Compliance and implementation	Complied
3.6 (ii)	Audit Committee		
a.	Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit	Mr Dushmantha Thotawatte was appointed to the Board of Directors with effect from 8 July 2022. Mr Thotawatte is a fellow member of the Institute of Chartered Accountants of Sri Lanka with a Bachelor of Commerce (Special Degree) from the University of Sri Jayawardhanepura & a Master in Financial Economics from the University of Colombo. He is an accomplished leader who has extensive experience in the field of Financial Management, Corporate Governance, Strategic Management and Public Relations, together a successful track record as Chief Executive Officer, Chief Financial Officer and Chief Internal Auditor in many state owned enterprises and private organisations and counts over 38 years of experience.	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
d.	Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes	This is not relevant since the auditor of the Bank is Auditor General.	Complied with
e.	Provision of non-audit services by an External Auditor	This is not relevant since the auditor of the Bank is Auditor General.	Complied with
f.	Determines scope of audit	Committee has discussed and finalised the nature and scope of the audit with the external auditors in accordance with SLAS before the audit commenced at the BAC Meeting held on 16 November 2022.	Complied with

Section	Principle	Compliance and implementation	Complied
g.	Review financial information of the Bank	Committee has a process to review financial information of the Bank when the quarterly and annual financial statements and the reports prepared 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 year 2022. 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	Committee reviews the management letter and the responses thereto and for the year 2021 to be submitted to the BAC.	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	IAGM-Audit has presented the Audit Plan 2023 to the Board Audit Committee on 16 November 2022 and BAC has discussed the progress of achieving the audit plan, status of CBSL statutory examination reports, audit queries raised by National Audit Office, achievement of other KPIs etc. The Committee has reviewed the Audit Plan for 2022 at the Meeting held on 25 February 2022.The Committee has reviewed the progress of achieving the Audit Plan 2022 at the Meeting held on 16 September 2022. Further, BAC ensures the actions taken on the recommendations of internal audit department.	Complied with
	(iii) Any appraisal or assessment of the performance of the head and senior staff members of IAD	Performance appraisal of Mr M M A Rizan (Chief Manager-Audit) submitted to the Board Audit Committee held on 25 February 2022. Performance appraisal of Mr.E A M Dissanayake (AGM-Audit) submitted to the Board Audit Committee held on 16 September 2022. Performance appraisal of Ms G S Galapaththi (AGM-Audit) submitted to the Board Audit committee meeting held on 16 September 2022. Performance appraisal of Mr M H M Rizan (CM-Audit) submitted to the Board Audit Committee held on 16 November 2022.	Complied with

Section	Principle	Compliance and implementation	Complied
	(iv) Recommend any appointment or termination of the head, senior staff members, and outsourced service providers	N/A	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;	N/A	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.	Confirmation of the Internal Audit Activity 2022 has been submitted to the Board Audit Committee held on 16 September 2022.	Complied with
k.	Internal investigations	Progress of Internal Investigations handled by Investigations and Inquiries Department as at 20 June 2022 submitted to the Board Audit Committee held on 16 September 2022.	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 1.3 Section 6.1.7 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 at their meetings held on 16 September 2022 and recommended the same for the approval of the Board.	Complied with
n.	Regular meetings	BAC has held five (5) meetings during the year 2022 and minutes of such meetings are maintained by the Board secretary.	Complied with
o.	Disclosure in Annual Report	Details of the activities of the Audit Committee has been disclosed in the Annual Report 2022 on page no 194 Number of meetings and attendance of each individual Director have been disclosed in the Annual Report 2022 on page No. 172	Complied with

Section	Principle	Compliance and implementation	Complied
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 had been communicated to the staff by the staff circular and amendment to the policy had been made by the BAC and has been submitted to the Board	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.	Remuneration of the Directors is decided by the guidelines set up by the Ministry of Finance. As per 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. However, the Collective Agreement of the Bank has been submitted to the Board in order to obtain the approval.	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 for the year 2022 through Board strategic plan review committee on 2 March 2022. The nature of all directors of the Board is "Non-Executive". Therefore, goals and targets has not been assigned.	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 Secretary to the Board, BHRRC reviewed the performance appraisal of CEO/GM and all KMPs.	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 meeting held on 30 September 2019 evidence that the CEO/GM should be present 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. Succession Plan approved by the Board Paper dated 8 September 2022. SOR had been prepared for management trainee and above level. However, qualifications and experience relevant for KMP specifically not available in the above SOR.	Complied with

Section	Principle	Compliance and implementation	Complied
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
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. The Committee has granted approval for the evaluation criteria for the selection and appointment of KMPs in the Bank. Selection, nomination and recommendations of all KMPs are been processed by the BNC and the approval has been obtained from the Board. Further the scheme of recruitment has been submitted to the BHRRC.	Complied with
d.	Fit and proper persons	The Annual declarations of the Directors for the year 2022 has been obtained from the directors and sent to the CBSL.	Complied with
e.	Succession Plan and new expertise	Boards of Directors are appointed by the Minister of Finance, Economy and Policy Development. 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 re-appointed on 21 December 2022. Other members were Mr Kumar Gunawardana, Mr Keerthi Goonatillake as at 26 December 2022. CEO participates at the BNC 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 others on invitation (including officer In charge of Compliance). Non-Executive Directors of the Committee were Ms Visakha Amarasekere (Chairperson of BIRMC), Mr Isuru Balapatabendi, Mr Dushmantha Thotawatte, Mr Ranjith Kodituwakku and on invitation Ms Roshini Wijerathna – DGM (Risk Management), Ms Samanthi Senanayake-AGM (Compliance) and Mr E A M Dissanayake – Chief Internal Auditor are attending to the Committee.	Complied with

Section	Principle	Compliance and implementation	Complied
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 2022.	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
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 submits 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	Section 2.14 of Code of Best Practice of the Bank approved by the Board on 30.09.2011 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. KMP and their close relations had not been mentioned as related parties in the above code of best practice. However, Head of Finance has submitted a Related Party Transaction Policy dated 16.03.2018 which has been recommended by the BAC and approved by the Board. Related party transactions including KMP are quarterly submitted to BIRMC.	Complied with

Section	Principle	Compliance and implementation	Complied
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 received 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
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 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. However, above code of practice does not include provisions regarding the KMPs accommodation. Deviations have not taken place during 2022.	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 2022.	Complied with
3.(7) (vi)	Favourable treatment or accommodation to Bank employees or their close relations	Transactions with Key management Personnel (KMP) and their Close Family members (CFM) submitted to the BIRMC.	Complied with

<table>
<tr><th>Section</th><th>Principle</th><th>Compliance and implementation</th><th>Complied</th></tr>
<tr><td>3.7 (vii)</td><td>Remittance of accommodations subject to Monetary Board approval</td><td>As per Section 2.14.f of the Board approved Code of Best Practice there is a process in place at the Bank in this regard.

Deviations have not taken place during 2022</td><td>Complied with</td></tr>
<tr><td>3.8</td><td>Disclosures</td><td></td><td></td></tr>
<tr><td>3.8 (i)</td><td>Publish annual and quarterly financial statements</td><td>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.</td><td>Complied with</td></tr>
<tr><td>3.8 (ii)</td><td>Disclosures in Annual Report</td><td></td><td></td></tr>
<tr><td>a.</td><td>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.</td><td>The statement to this effect is included in the Directors' Responsibility for Financial Reporting on page 206 of the Annual Report 2022.</td><td>Complied with</td></tr>
<tr><td>b.</td><td>The report by the Board on the Bank's internal control mechanism</td><td>Report by the Board on the Bank's internal control mechanism has been disclosed in the "Directors' Statement on Internal Control" in the Annual Report 2022 on page 203.</td><td>Complied with</td></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 no 204 in the Annual Report 2022.</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 26 to 27 in the Annual Report 2022.

Directors' Emoluments have been disclosed under Note. 13 to the Financial Statements on page 239.

Aggregate value of Remuneration and transactions with Directors 2022

<table><tr><th></th><th>LKR '000</th></tr><tr><td>Short term employee benefits</td><td>6,405.0</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 & Advances including credit cards</td><td>26,832.4</td></tr><tr><td>Deposits</td><td>74,313.0</td></tr><tr><td>Investments</td><td>–</td></tr></table></td><td>Complied with</td></tr>
</table>

<table>
<tr><th>Section</th><th>Principle</th><th>Compliance and implementation</th><th>Complied</th></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 2022.

Aggregate value of remuneration and transactions with KMP 2022.

<table><tr><th></th><th>LKR '000</th><th>Percentage of Bank's Regulatory Capital (%)</th></tr><tr><td>Directors</td><td>26,832.4</td><td>0.02</td></tr><tr><td>Closed Family Members of the Directors</td><td>–</td><td>–</td></tr><tr><td>Key Management Personnel (KMP)</td><td>202,511.9</td><td>0.17</td></tr><tr><td>Closed Family Members of the KMP</td><td>21,161.0</td><td>0.02</td></tr><tr><td>Subsidiaries</td><td>54,671.1</td><td>0.05</td></tr><tr><td>Sub Subsidiaries</td><td>392,519.7</td><td>0.34</td></tr><tr><td>Government and Government Related Entities</td><td>856,610,615.6</td><td>736.56</td></tr><tr><td>Concern in which any of the Bank's Director or close family member of any of the Bank's Director has substantial interest</td><td>10,177.0</td><td>0.01</td></tr></table></td><td>Complied with</td></tr>
<tr><td>f.</td><td>Aggregate values of remuneration to, and transactions with KMP</td><td>Aggregate value of Remuneration and transactions with KPM 2022

<table><tr><th></th><th>LKR '000</th></tr><tr><td>Short term employee benefits</td><td>526,381.3</td></tr><tr><td>Post employment pension</td><td>56,409.6</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>202,511.9</td></tr><tr><td>Deposits</td><td>486,200.4</td></tr><tr><td>Investments</td><td>–</td></tr></table></td><td>Complied with</td></tr>
<tr><td>g.</td><td>External Auditors certification of compliance</td><td>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.</td><td>Complied with</td></tr>
<tr><td>h.</td><td>Report confirming compliance with prudential requirements, regulations, laws, and internal controls</td><td>This has been disclosed in "Directors' Responsibility for Financial Reporting" on page 206 of the Annual Report 2022.</td><td>Complied with</td></tr>
<tr><td>i.</td><td>Non-Compliance Report</td><td>None</td><td>Complied with</td></tr>
</table>

BOARD SUBCOMMITTEE REPORTS

BOARD AUDIT COMMITTEE REPORT (BAC)

COMPOSITION

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

Chairman

Mr Dushmantha Thotawatta

Other members

Mr Dushmantha Thotawatta

Mrs Visakha Amarasekere

Mr Keerthi Goonatillake

REGULAR ATTENDEES BY INVITATION

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.

SECRETARY TO THE COMMITTEE

The Actg. Board Secretary functions as the Secretary to the BAC

MEETINGS

Five (05) meetings were held during the financial year ended 31 December 2022.

QUORUM

The quorum for a BAC meeting is two (02) members.

ROLE OF THE COMMITTEE

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 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.

ACTIVITIES IN 2022

The Committee during the year under review attended to the following:

- Reviewed quarterly financial performance of the Bank for the year 2022 and recommended to submit the same to the Board.
- Reviewed and discussed issues raised at CBSL Limited Scope Statutory Examination as at 30.11.2020 and monitored the progress of rectification.
- Periodic review of internal audit reports and the performance of the Internal Audit Department.
- Reviewed Information System Procedures and recommended appropriate changes and monitored the progress of their implementation.
- Reviewed the special reports such as Root Cause Analysis over deficiencies of Branch Operations.

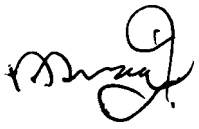
The BAC considered the internal audit reports, the deficiencies observed therein, responses given by the respective DGMM/Heads of the Departments and monitored corrective actions taken to rectify deficiencies observed. The minutes of the BAC meetings are reported to the Board for information.

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

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

FUTURE FOCUS

The Board Audit Committee will commit to achieve the objective of the charter and promote effective internal control mechanism.



Mr Dushmantha Thotawatta
Chairman of the Audit committee

27 February 2023

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT (BHRRC)

COMPOSITION

The committee comprises of not fewer than 2 and not more than 3 Non-Executive Independent Directors as at the end of the year and the CEO/ General Manager is required to be present at each meeting.

Chairman

Mr Sujeewa Rajapakse

Other members

Mr Isuru Balapatabendi – Director

Mr Manjula Wellalage – Director

Mr Clive Fonseka – CEO/ General Manager (Actg.) (w.e.f. 27 February 2023)

REGULAR ATTENDEES BY INVITATION

DGM (Human Resources) attends meetings on invitation and any other officer of the Bank may be present at meetings on invitation.

SECRETARY TO THE COMMITTEE

The Board Secretary functions as the Secretary to the BHRRC.

MEETINGS

Nine (09) meetings were held during the financial year ended 31 December 2022.

QUORUM

The quorum for a BHRRC meeting is two Directors of the Board and the CEO/General Manager.

ROLE OF THE COMMITTEE

- The BHRRC is responsible for formulating human resource and remuneration policies and initiating strategies in relation to human resource management.
- The Committee plays a key role in recruitment and determining salaries and other employee benefits.
- The Committee review employment contracts of the members of the Corporate and Executive Management as well setting goals and targets for the CEO/General Manager and Key Management Personnel.
- Evaluating the performance of the CEO/General Manager and KMPs against the set goals and targets periodically and determining the basis for revising remuneration and benefits, etc.

FUTURE FOCUS

The Board Human Resources and Remuneration Committee will ensure all the Human Resource and Remuneration arrangements support the strategic aims of the Bank.

Mr Sujeewa Rajapakse
Chairman of the Board Human Resources and Remuneration Committee

27 February 2023

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT (BIRMC)

COMPOSITION

The committee comprises of three Non-Executive Independent Directors, CEO/General Manager, DGM (Risk Management) and any other officer of the Bank may be present on invitation.

Chairman

Ms Visakha Amarasekere

Other members

Mr Dushmantha Thotawatta – Director

Mr Isuru Balapatabendi – Director

Mr Clive Fonseka – CEO/ General Manager (Actg.)

Ms Roshini Wijerathna – DGM (Risk Management)

REGULAR ATTENDEES BY INVITATION

Any other officer of the Bank may be present at meetings on invitation.

SECRETARY TO THE COMMITTEE

The Board Secretary functions as the Secretary to the BIRMC

MEETINGS

Four (04) meetings were held during the financial year ended 31 December 2022.

QUORUM

The quorum for a BIRMC meeting is two Directors of the Board and the CEO/General Manager.

ROLE OF THE COMMITTEE

- 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, information technology, and strategic risks, using appropriate risk indicators and management information.
- 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.
- Reviewing the adequate and effectiveness of all management level committees such as credit committee and Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.

FUTURE FOCUS

The Board Integrated Risk Management Committee will be focused to ensure the adequacy and effectiveness of the risk management framework of the Bank.

Ms Visakha Amarasekere
Chairman of the Board Integrated Risk Management Committee

27 February 2023

BOARD EXECUTIVE CREDIT COMMITTEE REPORT (BECC)

COMPOSITION

The committee comprises of at least two Non-Executive Independent Directors of the Board and the CEO/ General Manager, as at the end of the year (i.e – 26 December 2022)

Chairman

Mr Kumar Gunawardana

Other members

Mr Keerthi Goonatillake – Director

Mr Manjula Wellalage – Director

Mr Ranjith Kodituwakku – CEO/General Manager (as at 26 December 2022)

REGULAR ATTENDEES BY INVITATION

Any other credit line officer of the Bank attends the BECC meetings on invitation.

SECRETARY TO THE COMMITTEE

Board Secretary functions as the Secretary to the BECC.

MEETINGS

Twenty Four (24) meetings were held during the financial year ended 31 December 2022.

QUORUM

The quorum for a BECC meeting is three members including two Directors of the Board.

ROLE OF THE COMMITTEE

- Approving Bank's Credit Management Structure and establishing credit approval authorities including the level of delegation.
- Approving all credits in excess of the limits delegated to CEO/General Manager and imposing additional covenants, conditions when deemed appropriate.
- Approving rescheduling, lump sum settlement and interest concessions proposals, in excess of authority given to CEO/General Manager.
- Reviewing credit related systems, their implementation, monitoring and managing portfolio level risks to improve portfolio quality.
- Recommending prudential measures of control credit risk.

FUTURE FOCUS

The Board Executive Credit Committee will commit to ensure effective credit risk management of the Bank.

Mr Kumar Gunawardana
Chairman of the Board Executive Credit Committee

27 February 2023

BOARD NOMINATION COMMITTEE REPORT(BNC)

COMPOSITION

The committee comprises of three Non-Executive Independent Directors as at the end of the year

Chairman

Mr Sujeewa Rajapakse

Other members

Mr A M P M B Atapattu – Director

Mr Manjula Wellalage – Director

(w.e.f. 27 February 2023)

REGULAR ATTENDEES BY INVITATION

Actg. CEO/General Manager attends the meetings on invitation.

SECRETARY TO THE COMMITTEE

The Board Secretary functions as the Secretary to the BNC

MEETINGS

Six (6) meetings were held during the financial year ended 31 December 2022.

QUORUM

The quorum for a BNC meeting is three (3) members.

ROLE OF THE COMMITTEE

- The main responsibility is to implement a procedure to select/ appoint a CEO/General Manager and Key Management Personnel. The Committee sets the eligibility criteria for appointment or promotion to the post of CEO/General Manager and the Key Management Positions.
- The Committee is also responsible for consideration of the requirement for additional/new expertise and the succession arrangements for retiring Key Management Personnel.
- To set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment of promotion to the post of CEO/GM and Senior Management Positions.

FUTURE FOCUS

The Board Nomination Committee will commit to ensure standard appointments in corporate and executive management in line with the stranded direction for the Bank.

Mr Sujeewa Rajapakse
Chairman of the Board
Nomination Committee

27 February 2023

BOARD INVESTMENT BANKING COMMITTEE REPORT (BIBC)

COMPOSITION

The committee comprises of at least two Directors of the Board, CEO/ General Manager, Head of Treasury, DGM (Risk Management) and any other officer on invitation.

Chairman

Mr Kumar Gunawardana

Other members

Ms Visakha Amarasekere – Director

Mr Isuru Balapatabendi – Director

Mr Ranjith Kodituwakku – CEO/General Manager

Ms Roshini Wijerathna – DGM (Risk Management)

Mr Clive Fonseka – CEO/General Manager (Actg.) (as at 26 December 2022)

REGULAR ATTENDEES BY INVITATION

Any other officer of the Bank may attend the meetings on invitation.

SECRETARY TO THE COMMITTEE

The Board Secretary functions as the Secretary to the BIBC.

MEETINGS

Three (03) meetings were held during the financial year ended 31 December 2022.

QUORUM

The quorum for a BIBC meeting is three members including two Directors of the Board.

ROLE OF THE COMMITTEE

- Regular review of Investment Banking model of the Bank.
- Review of the operations of IBU.
- Name clearance of the potential clients.
- To obtain approval in the case of jointly managing issues.
- Approval for management fee/ brokerage sharing basis.
- Review of new investment and banking product inclusions and introduction.

FUTURE FOCUS

The Board Investment Banking Committee will focus to ensure effective investments for the Bank.

Mr Kumar Gunawardana
Chairman of the Board Investment Banking committee

27 February 2023

BOARD INFORMATION TECHNOLOGY COMMITTEE REPORT (BITC)

COMPOSITION

The committee comprises of at least two Directors of the Board, Chief Information Officer, DGM (Channel Management). Members of the Committee are appointed by Board on recommendation of the Board Nomination Committee.

Chairman

Mr Keerthi Goonatillake

Other members

Mr Kumar Gunawardana – Director

Mr Dhammika Dasa – Chief Information Officer

DGM (Channel Management)

REGULAR ATTENDEES BY INVITATION

Any other officer shall attend the meeting on invitation.

SECRETARY TO THE COMMITTEE

The Board Secretary functions as the Secretary to the BITC

MEETINGS

Five (5) meetings were held during the financial year ended 31 December 2022.

QUORUM

The quorum for a BITC meeting is three members including Chief Information Officer.

ROLE OF THE COMMITTEE

The Committee will be empowered to:

- Review the overall progress of IT
- Recommend the adequacy and allocation of IT resources in terms of funding, personnel and equipment.
- Make recommendations to the Board for initiatives taken by IT for Bank wide IT strategies, investments and projects.
- Make recommendations to the Board for IT policies and funding priorities which are initiated by IT.

FUTURE FOCUS

The Board Information Technology Committee will ensure that the IT services and operations will be aligned with Bank's strategies.

Mr Keerthi Goonatillake
Chairman of the Board IT Committee

27 February 2023

BOARD STRATEGIC PLANNING REVIEW COMMITTEE REPORT (BSPRC)

COMPOSITION

The committee comprises of Chairman, two Non-Executive Independent Directors and CEO/General Manager as at the end of the year.

Chairman

Mr Sujeewa Rajapakse

Other members

Mr Isuru Balapatabendi – Director

Ms Visakha Amarasekere – Director

Mr Clive Fonseka – CEO/ General Manager (Actg.) (w.e.f. 27 February 2023)

REGULAR ATTENDEES BY INVITATION

DGM (Strategic Planning, Performance Management & Research) and any other officer of the Bank may be present at meetings by invitation.

SECRETARY TO THE COMMITTEE

The Board Secretary functions as the Secretary to the BSPRC.

MEETINGS

Four (04) meetings were held during the financial year ended 31 December 2022.

QUORUM

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

ROLE OF THE COMMITTEE

- To review the key points highlighted and discussed at Strategic Planning monthly progress review meetings and to recommend corrective measures.
- To develop policies based on recommendations.
- To provide guidance and direction for Strategic Plan implementation process.

FUTURE FOCUS

The Board Strategic Planning Review Committee will focus to assist the Board in fulfilling its fiduciary responsibility in order to accomplish the Bank's vision.

Mr Sujeewa Rajapakse
Chairman of the Board Strategic Plan Review Committee

27 February 2023

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 194).
- 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 requirements of recognition,

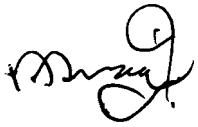
measurement, classification and disclosure are being made whilst further strengthening of processes will take place pertaining to impairment of loans and advances, credit card operations, management information system and financial statement disclosures related to risk management and related parties. The assessment was not included in 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 2021 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.

For and on behalf of the Board,



Dushmantha Thotawatta
Chairman
Board Audit Committee

Ms Visakha Amarasekere
Director

2 March 2023

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/2023/04

මගෙ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date 20 March 2023

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 2022.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 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 Wickramaratne
Auditor General

20 March 2023

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205 FINANCIAL STATEMENTS

206 / Directors' Responsibilities for Financial Reporting
207 / Auditor General's Report on Financial Statements
209 / Income Statement
210 / Statement of Comprehensive Income
211 / Statement of Financial Position
212 / Statement of Changes in Equity – Bank
214 / Statement of Changes in Equity – Group
216 / Statement of Cash Flows
217 / Notes to the 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 194.

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 2022 exhibited on pages 209 to 324.

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 196. 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 202 and 203 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

27 February 2023

AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE
මගේ අංකය / எனது இல. / My No. BAN/D/PB/2023/01 ඔබේ අංකය / உமது இல. / Your No.
දිනය / திகதி / Date 03 March 2023

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

1. FINANCIAL STATEMENTS

1.1 Opinion

The audit of the financial statements of the People's Bank (the "Bank") and the Consolidated Financial Statements of the Bank and its Subsidiaries (the "Group") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 give a true and fair view of the financial position of the Bank and the Group as at 31 December 2022 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 Bank's 2022 Annual Report

The other information comprises the information included in the Bank's 2022 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

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

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

When I read the Bank's 2022 Annual Report, if I conclude that 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

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operations, or has no realistic alternative but to do so.

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 skepticism throughout the audit. I also:

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

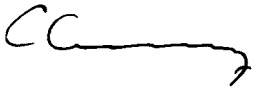
2.2 Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

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

INCOME STATEMENT

For the year ended 31 December	Note	Bank 2022 LKR '000	Bank 2021 LKR '000	Bank Change %	Group 2022 LKR '000	Group 2021 LKR '000	Group Change %
Gross income	6	357,228,609	207,249,820	72.4	391,204,198	236,795,041	65.2
Interest income		321,935,983	197,330,011	63.1	351,386,736	222,362,450	58.0
Interest expenses		(246,177,918)	(114,869,171)	114.3	(260,351,661)	(125,487,671)	107.5
Net interest income	7	75,758,065	82,460,840	-8.1	91,035,075	96,874,779	-6.0
Fee and commission income		16,397,745	8,268,168	98.3	17,213,747	9,645,136	78.5
Fee and commission expense		(828,675)	(597,786)	38.6	(828,675)	(597,786)	38.6
Net fee and commission income	8	15,569,070	7,670,382	103.0	16,385,072	9,047,350	81.1
Net gain/(loss) from trading	9	17,026,226	(1,345,029)	-1365.9	17,019,836	(1,207,608)	-1509.4
Other operating income (net)	10	1,868,655	2,996,670	-37.6	5,583,879	5,995,063	-6.9
Total operating income		110,222,016	91,782,863	20.1	130,023,862	110,709,584	17.4
Impairment charge	11	(33,346,451)	(14,472,820)	130.4	(34,352,837)	(14,485,458)	137.2
Net operating income		76,875,565	77,310,043	-0.6	95,671,025	96,224,126	-0.6
Personnel expenses	12	(26,602,748)	(22,771,935)	16.8	(32,200,568)	(27,743,883)	16.1
Other expenses	13	(20,738,787)	(17,289,578)	19.9	(26,787,783)	(22,771,171)	17.6
Operating Profit Before Taxes on financial services		29,534,030	37,248,530	-20.7	36,682,674	45,709,072	-19.7
Taxes on financial services		(8,195,633)	(6,861,930)	19.4	(9,992,022)	(8,473,708)	17.9
Operating Profit After Taxes on financial services		21,338,397	30,386,600	-29.8	26,690,652	37,235,364	-28.3
Share of profits/(loss) of associates (net of tax)		–	–		–	10,893	-100.0
Profit before tax		21,338,397	30,386,600	-29.8	26,690,652	37,246,257	-28.3
Income tax expenses	14	(4,146,339)	(6,666,457)	-37.8	(6,165,213)	(9,158,609)	-32.7
Profit for the year		17,192,058	23,720,143	-27.5	20,525,439	28,087,648	-26.9
Profit attributable to:							
Equity holders of the Bank		17,192,058	23,720,143	-27.5	19,571,989	26,350,975	-25.7
Non-controlling interests		–	–		953,450	1,736,673	-45.1
		17,192,058	23,720,143	-27.5	20,525,439	28,087,648	-26.9
Earnings per share	15						
Basic earnings per ordinary share (LKR)	15.1	17,192	23,720	-27.5	19,572	26,351	-25.7
Diluted earnings per ordinary share (LKR)	15.2	70	97	-27.5	80	108	-25.7

The Notes appearing on pages 217 to 324 form an integral part of these Financial Statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Profit for the year	17,192,058	23,720,143	20,525,439	28,087,648
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	52,869	(316,074)	(121,202)	(312,977)
Net actuarial gains/(losses) on defined benefit plans	(3,304,393)	12,959,137	(3,177,074)	12,943,725
Deferred tax effect of gains/(losses) on defined benefit plans	991,318	(3,110,193)	953,496	(3,106,359)
Gains on revaluation of land and buildings	3,507,183	3,672,851	4,379,820	3,822,851
Deferred tax effect on revaluation of land and buildings	(1,052,155)	(881,484)	(1,313,946)	(917,484)
Deferred tax effect on change in income tax rate on the opening balance	(2,056,688)	245,293	(2,056,688)	245,293
	(1,861,866)	12,569,530	(1,335,594)	12,675,049
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	(12,354)	713	(299,989)	(92,557)
Deferred tax effect on above	–	–	137,822	30,075
Net gains/(losses) on translating the Financial Statements of foreign operation	–	–	1,458,432	174,124
	(12,354)	713	1,296,265	111,642
Other comprehensive income for the year, net of taxes	(1,874,220)	12,570,243	(39,329)	12,786,691
Total comprehensive income for the year	15,317,838	36,290,386	20,486,110	40,874,339
Attributable to:				
Equity holders of the Bank	15,317,838	36,290,386	18,561,941	39,105,903
Non-controlling interests	–	–	1,924,169	1,768,436
	15,317,838	36,290,386	20,486,110	40,874,339

The Notes appearing on pages 217 to 324 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

		Bank			Group		
As at 31 December	Note	2022 LKR '000	2021 LKR '000	Change %	2022 LKR '000	2021 LKR '000	Change %
Assets							
Cash and cash equivalents	17	66,842,171	57,538,351	16.2	68,077,027	58,836,831	15.7
Balances with Central Bank of Sri Lanka	18	67,602,313	56,717,820	19.2	67,602,313	56,717,820	19.2
Placements with banks	19	–	–	–	3,028,550	3,325,726	-8.9
Derivative financial instruments	20	14,882,584	441,877	3268.0	14,882,584	441,877	3268.0
Financial assets – at fair value through profit or loss	21	5,556,754	1,558,850	256.5	5,915,926	2,553,546	131.7
Financial assets – at amortised cost							
Loans and advances to banks	22	7,689,150	10,131,952	-24.1	7,689,150	13,398,055	-42.6
Loans and advances to other customers	23	1,783,106,693	1,835,697,108	-2.9	1,915,771,684	1,990,689,061	-3.8
Debt instruments measured at amortised cost	24	913,099,927	587,320,182	55.5	928,885,518	600,079,625	54.8
Financial assets – at fair value through other comprehensive income (OCI)							
Equity instruments at fair value through OCI	25	1,661,656	1,621,375	2.5	1,844,574	1,889,144	-2.4
Debt instruments at fair value through OCI	26	10,378,370	9,399,272	10.4	11,428,832	10,596,723	7.9
Investments in subsidiaries	27	4,280,522	3,572,824	19.8	–	–	–
Property, plant and equipment and right-of-use-assets	28	49,330,080	46,761,157	5.5	59,780,131	56,432,293	5.9
Intangible assets and goodwill	29	1,719,177	2,077,544	-17.2	1,859,475	2,252,557	-17.5
Other assets	30	45,879,055	34,802,224	31.8	46,368,814	35,396,730	31.0
Total assets		2,972,028,452	2,647,640,536	12.3	3,133,134,578	2,832,609,988	10.6
Liabilities							
Due to banks	31	111,452,491	107,745,916	3.4	122,696,978	122,397,825	0.2
Derivative financial instruments	20	1,888,478	1,761,220	7.2	1,888,478	1,761,220	7.2
Due to other customers	32	2,371,518,898	2,071,532,612	14.5	2,450,079,037	2,168,674,742	13.0
Other borrowings	33	191,527,573	241,419,125	-20.7	191,527,573	241,419,125	-20.7
Current tax liabilities		6,372,157	6,452,823	-1.3	8,297,080	8,512,150	-2.5
Net deferred tax liabilities	34	606,207	2,687,330	-77.4	570,529	3,194,714	-82.1
Other liabilities	35	106,765,050	31,102,734	243.3	115,961,714	43,451,531	166.9
Subordinated term debts	36	36,603,467	48,861,680	-25.1	52,781,563	65,560,465	-19.5
Total liabilities		2,826,734,321	2,511,563,440	12.5	2,943,802,952	2,654,971,772	10.9
Equity							
Stated capital/assigned capital	37	12,201,998	12,201,998	–	12,201,998	12,201,998	–
Statutory reserve fund	38	10,070,131	9,210,528	9.3	10,070,131	9,210,528	9.3
Other reserves	39	38,397,830	35,902,287	7.0	41,452,506	38,160,081	8.6
Retained earnings	40	84,624,172	78,762,283	7.4	111,194,555	104,755,265	6.1
Total shareholders' equity		145,294,131	136,077,096	6.8	174,919,190	164,327,872	6.4
Non-controlling interests		–	–	–	14,412,436	13,310,344	8.3
Total equity		145,294,131	136,077,096	6.8	189,331,626	177,638,216	6.6
Total equity and liabilities		2,972,028,452	2,647,640,536	12.3	3,133,134,578	2,832,609,988	10.6
Contingent liabilities and commitments	41	370,648,773	428,771,195	-13.6	375,288,336	443,842,195	-15.4

The Notes appearing on pages 217 to 324 form an integral part of 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 2022 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

Dushmantha Thotawatte
Director

Clive Fonseka
Chief Executive Officer/General Manager (Actg.)

2 March 2023
Colombo

STATEMENT OF CHANGES IN EQUITY – BANK

	Stated capital/Assigned capital	
	Ordinary shares LKR '000	Assigned capital LKR '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
Adjustment: Surcharge tax levied under Surcharge Tax Act No. 14 of 2022 (Note 14.5)		
Balance as at 1 January 2022	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 (Note 38)	–	–
Special levy to treasury/dividend (Note 39.6)	–	–
Total transactions with equity holders	–	–
Balance as at 31 December 2022	49,998	12,152,000

STATEMENT OF CHANGES IN EQUITY – BANK

	Reserves					
	Statutory reserve fund LKR '000	Revaluation reserve LKR '000	Other reserves LKR '000	Financial assets at FVOCI reserve LKR '000	Retained earnings LKR '000	Total LKR '000
Balance as at 31 December 2020	8,024,521	18,748,933	13,574,329	535,975	48,897,842	101,983,598
Profit for the year	–	–	–		23,720,143	23,720,143
Other comprehensive income for the year, net of tax	–	2,791,367	–	(315,361)	10,094,237	12,570,243
Total comprehensive income for the year	–	2,791,367	–	(315,361)	33,814,380	36,290,386
Transfer to statutory reserve fund	1,186,007	–	567,044		(1,753,051)	–
Dividend paid	–	–	–		(2,196,888)	(2,196,888)
Transfer and dividend	1,186,007	–	567,044	–	(3,949,939)	(2,196,888)
Balance as at 31 December 2021	9,210,528	21,540,300	14,141,373	220,614	78,762,283	136,077,096
Effect of adoption of SLFRS 9					(5,439,713)	(5,439,713)
Restated balance as at 1 January 2022	9,210,528	21,540,300	14,141,373	220,614	73,322,570	130,637,383
Profit for the year	–	–	–	–	17,192,058	17,192,058
Other comprehensive income for the year, net of tax		2,455,028		40,515	(4,369,763)	(1,874,220)
Total comprehensive income for the year	–	2,455,028	–	40,515	12,822,295	15,317,838
Transfer to statutory reserve fund	859,603	–	–	–	(859,603)	–
Dividend paid	–	–	–	–	(661,090)	(661,090)
Transfer and dividend	859,603	–	–	–	(1,520,693)	(661,090)
Balance as at 31 December 2022	10,070,131	23,995,328	14,141,373	261,129	84,624,172	145,294,131

STATEMENT OF CHANGES IN EQUITY – GROUP

	Stated capital/Assigned capital	
	Ordinary shares LKR '000	Assigned capital LKR '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 period		
Special levy to treasury/dividend		
Dividends paid		
Total transactions with equity holders	–	–
Balance as at 31 December 2021	49,998	12,152,000
Adjustment: Surcharge tax levied under Surcharge Tax Act No. 14 of 2022 (Note 14.5)		
Balance as at 1 January 2022	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 (Note 38)	–	–
Special levy to treasury/dividend (Note 39.6)	–	–
Dividends paid	–	–
Total Transactions with equity holders	–	–
Balance as at 31 December 2022	49,998	12,152,000

STATEMENT OF CHANGES IN EQUITY – GROUP

Reserves							
Statutory reserve fund LKR '000	Revaluation reserve LKR '000	Other reserves LKR '000	Financial assets at FVOCI reserve LKR '000	Retained earnings LKR '000	Total LKR '000	Non-controlling interest LKR '000	Total equity LKR '000
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
				(7,309,533)	(7,309,533)	(623,273)	(7,932,806)
9,210,528	23,464,860	14,540,498	154,723	97,445,732	157,018,339	12,687,071	169,705,410
–	–	–	–	19,571,989	19,571,989	953,450	20,525,439
	2,929,733	565,090	(202,398)	(4,302,473)	(1,010,048)	970,719	(39,329)
–	2,929,733	565,090	(202,398)	15,269,516	18,561,941	1,924,169	20,486,110
859,603	–	–	–	(859,603)	–	–	–
–	–	–	–	(661,090)	(661,090)	–	(661,090)
–	–	–	–	–	–	(198,804)	(198,804)
859,603	–	–	–	(1,520,693)	(661,090)	(198,804)	(859,894)
10,070,131	26,394,593	15,105,588	(47,675)	111,194,555	174,919,190	14,412,436	189,331,626

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	Bank 2022 LKR '000	Bank 2021 LKR '000	Group 2022 LKR '000	Group 2021 LKR '000
Cash flows from operating activities					
Profit before tax		21,338,397	30,386,600	26,690,652	37,246,257
Adjustment for					
Non-cash items included in profits before tax	46	26,915,055	21,016,209	29,402,338	23,549,038
Changes in operating assets	47	(5,472,100)	(206,371,943)	19,946,214	(218,238,165)
Changes in operating liabilities	48	324,168,512	382,453,165	300,749,935	388,521,877
Dividend income from subsidiaries and others		(908,626)	(1,802,759)	(207,360)	(174,065)
Interest expense on subordinated debt		5,503,630	5,103,325	7,060,585	6,966,957
Contributions to defined benefit plans/gratuity		2,742,148	955,663	2,844,351	1,081,522
Tax paid		(13,865,366)	(7,185,466)	(19,216,590)	(9,544,600)
Net cash generated from operating activities		360,421,650	224,554,791	367,270,125	229,408,820
Cash flows from investing activities					
Purchase of property, plant and equipment		(1,974,640)	(1,527,988)	(2,526,931)	(1,997,410)
Proceeds from the sale of property, plant and equipment		174,560	79,213	237,350	143,299
Purchase of financial investments		(329,002,099)	(232,273,659)	(332,028,247)	(236,240,351)
Net purchase of intangible assets		(293,921)	(2,013,497)	(305,693)	(2,025,351)
Dividends received from investment in subsidiaries and others		908,626	1,802,759	207,360	174,065
Net cash (used in) from investing activities		(330,187,474)	(233,933,172)	(334,416,161)	(239,945,748)
Cash flows from financing activities					
Proceed received from subordinated debt	36.1	–	5,000,000	–	15,000,000
Repayment of subordinated debt	36.1	(12,500,000)	–	(12,500,000)	(7,230,443)
Interest paid on subordinated debt	36.1	(5,261,843)	(4,799,341)	(7,339,487)	(6,044,084)
Repayment of lease liabilities	35.4	(2,507,423)	(2,548,281)	(2,914,389)	(2,904,035)
Dividend paid to non-controlling interest		–	–	(198,804)	(150,000)
Dividend/Levy paid to holders of other equity instruments		(661,090)	(2,196,888)	(661,090)	(2,196,888)
Net cash from financial activities		(20,930,356)	(4,544,510)	(23,613,770)	(3,525,450)
Net increase/(decrease) in cash and cash equivalents		9,303,820	(13,922,891)	9,240,196	(14,062,377)
Cash and cash equivalents at the beginning of the year		57,538,351	71,461,242	58,836,831	72,899,208
Cash and cash equivalents at the end of the year		66,842,171	57,538,351	68,077,027	58,836,831

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 2022, 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 ACCOUNTING

2.1 Statement of compliance

The Consolidated Financial Statements of the Group and the Separate Financial Statements of the Bank 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). These SLFRSs and LKASs are available at the website of CA Sri Lanka www.casrilanka.com.

These Financial Statements include the following components:

Income Statement and Statement of Profit or Loss and Other Comprehensive Income	Providing information on the financial performance of the Bank and the Group for the year under review
Statement of Financial Position	Providing the information on the financial position of the Bank & the Group as at the year-end
Statement of Changes in Equity	Depicting all changes in shareholders' equity during the year under review.
Statement of Cash Flows	Providing the information to the users, on the ability of the Bank and Group to generate cash and cash equivalents and the utilisation of those cash flows
Notes to the Financial Statements	Comprising significant accounting policies and other explanatory information

2.3 Approval of financial statements

The Consolidated and Separate Financial Statements for the year ended 31 December 2022, were authorised for issue on 2 March 2023 by the Board of Directors.

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:

Item	Basis of measurement	Note
Derivative financial instruments	At Fair Value	20
Financial instruments measured at fair value through profit or loss	At Fair Value	21
Financial instruments measured at fair value through OCI	At Fair Value	25 & 26
Land and Buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	28
Defined benefit obligations	Actuarially valued and recognised as the present value of the defined benefit obligation less the net total fair value of the plan assets	35

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. The 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 Note 35.1.5 and 35.2.5 for the assumptions used.

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 41.

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).

(ii) Impairment charges on loans and advances

Judgment 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 judgments mainly about the borrower's financial situation and the net realisable value of the 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 2022. 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.

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 receivables 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.

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.

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:

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 whom 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.

Purchased or Originated credit impaired (POCI) Financial Assets: Financial Assets which are credit impaired on initial recognition are categorised within stage 3. The Group does not have POCI loans as at the reporting date.

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 Write-off of financial assets

Loans and debt securities are written off annually (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off provided that the particular facility transfer to the non-performing category before 2 years (i.e.,2 years prior to the written-off considering the year that bank normally consider the 30 June of every year) and no payments received during the said 2-year period. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

5.6.3 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.
- 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 (Leases) sets out the principles for the recognition, measurement, presentation, and disclosure of leases.

The Group recognises the right of use assets and lease liabilities at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Groups' incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments.

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.

The Group presents right of use assets under Note 28 to these financial statements while the corresponding lease liability is presented in Note 35, "Other Liabilities".

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.

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.

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.

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 2022, 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 55 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

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 2022, 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 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 at the rates specified in Note 14 to the Financial Statements.

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.

5.18.3 Value Added Tax on Financial Services (FSVAT)

Bank's total value addition was subjected to a 18% Value Added Tax as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto with effect from 1 January 2022.

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% from 1 December 2019 to 31 May 2022 and at the rate of 12% from 1 June 2022 to 31 August 2022 and at the rate of 15% from 1 September 2022 onwards.

5.18.5 Withholding Tax on Dividends (WHT)

Dividend distributed out of taxable profit of the local Subsidiaries attracts a 14%, deduction at source and is final tax liability for of the Bank. Withholding tax on dividends has been abolished with effect from 1 January 2019.

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.

5.18.7. Surcharge Tax

Inland Revenue Department (IRD) has issued a notice to taxpayers dated 8 April 2022 on the implementation of the Surcharge Tax Act No 14 of 2022. The surcharge tax is a one-off tax at a rate of 25% that is imposed on any individual, partnership, or company with taxable income exceeding LKR 2 billion for the year of assessment 2020/2021. The act clarifies that in the case of companies, the surcharge tax is imposed on:

- A company where taxable income of the company individually exceeds LKR 2 billion; and
- Every company in a group of companies where the aggregate taxable income of all subsidiaries and the holding company in that group exceeds LKR 2 billion.

The notice further clarifies that holding companies should exclude gains and profits from dividends received from its subsidiaries in calculating the surcharge tax liability. It is also clarified that in calculating the aggregate taxable income, where any subsidiary or holding company has a nil amount of taxable income due to losses or unrelieved losses, such losses or nil amount should be disregarded.

5.18.8. Social Security Contribution Levy

Under the Social Security Contribution Levy Act (SSCL) No. 25 of 2022 with effect from 1 October 2022, a social security tax of 2.5% has been imposed on those who annual taxable turnover exceeds LKR 120 million. Accordingly, bank is liable for SSCL with effect from 1 October 2022.

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 45.

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 42 to the Financial Statements as adjusted as applicable.

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:

- **Sri Lanka Accounting Standard - SLFRS 17 - Insurance Contracts**
  SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure.
- **Amendments to LKAS 12 Income Taxes**
  The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements or to the related asset component (and interest expense). This judgment is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

- **Amendments to LKAS 8 – Accounting policies, changes in accounting estimates and errors.**
  The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

- **Amendments to LKAS 1: Classification of Liabilities as Current or Non-current.**
  The amendment specifies the requirements for classifying liabilities as current or noncurrent. The amendments clarify what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of liability not impact its classification and disclosures.

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 out in respective Income Notes.

		Bank		Group	
For the year ended 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Interest income	7.1	321,935,983	197,330,011	351,386,736	222,362,450
Fee and commission income	8.1	16,397,745	8,268,168	17,213,747	9,645,136
Net gain/(loss) from trading	9	17,026,226	(1,345,029)	17,019,836	(1,207,608)
Other operating income (Net)	10	1,868,655	2,996,670	5,583,879	5,995,063
		357,228,609	207,249,820	391,204,198	236,795,041

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.

7.1 Interest income

	Bank		Group	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cash and cash equivalents	9,830	240,498	15,263	285,264
Placements with banks	926,746	2,419,823	1,486,976	2,525,712
Loans and advances – to banks	892,160	1,206,812	926,734	1,274,194
Financial assets – at fair value through profit or loss	921,043	768,284	921,043	768,284
Loans and advances to other customers	232,797,261	153,693,234	258,849,618	177,714,884
Debt instruments measured at amortised cost	84,305,541	37,343,071	86,999,376	38,075,269
Debt instruments at fair value through OCI	1,246,709	704,633	1,351,033	765,187
Day one difference on staff loans	836,693	953,656	836,693	953,656
Total interest income	321,935,983	197,330,011	351,386,736	222,362,450

7.2 Interest expenses

For the year ended 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Due to banks	6,633,232	8,114,157	8,624,421	8,982,646
Due to other customers	199,571,363	97,603,454	210,041,439	105,318,788
Other borrowings	33,861,939	3,465,215	33,842,362	3,451,678
Debt securities issued	5,503,630	5,103,325	7,060,585	6,966,957
Interest on lease liabilities	607,754	583,020	782,854	767,602
Total interest expenses	246,177,918	114,869,171	260,351,661	125,487,671
Net interest income	75,758,065	82,460,840	91,035,075	96,874,779

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

For the year ended 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Loans	655,326	1,271,909	655,326	1,271,909
Cards	2,349,323	1,600,975	2,349,323	1,600,975
Trade and remittances	8,320,217	1,361,782	8,320,217	1,361,782
Investment banking	43,273	93,339	43,273	93,339
Deposits	4,034,560	2,883,922	4,034,560	2,883,922
Guarantees	719,146	716,185	719,146	716,185
Others	275,900	340,056	1,091,902	1,717,024
Total	16,397,745	8,268,168	17,213,747	9,645,136

8.2 Fee and commission expenses

For the year ended 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cards	806,575	333,087	806,575	333,087
Trade and remittances	500	654	500	654
Investment banking	19,934	43,084	19,934	43,084
Guarantees	1,150	1,643	1,150	1,643
Others	516	219,318	516	219,318
Total	828,675	597,786	828,675	597,786
Net fee and commission income	15,569,070	7,670,382	16,385,072	9,047,350

9. NET GAIN/(LOSS) FROM TRADING

Accounting policy

Net gains/(losses) from trading comprises of 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 valued at each reporting date.

		Bank		Group	
For the year ended 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Net gain/(loss) from trading					
Gain from trading	9.1	2,944,849	(830,479)	2,938,459	(693,058)
Net fair value gain/(loss)	9.2	14,081,377	(514,550)	14,081,377	(514,550)
Total		17,026,226	(1,345,029)	17,019,836	(1,207,608)

9.1 Gain/(loss) from trading

	Bank		Group	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Foreign exchange	2,740,436	(965,361)	2,740,436	(965,361)
Government Securities (Treasury Bills and Treasury Bonds)	184,223	143,459	184,223	143,459
Equities	20,190	(8,577)	13,800	128,844
Total	2,944,849	(830,479)	2,938,459	(693,058)

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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Derivatives	14,313,449	(440,500)	14,313,449	(440,500)
Government Securities				
Treasury Bills	1,652	(4,074)	1,652	(4,074)
Treasury Bonds	(233,724)	(69,976)	(233,724)	(69,976)
Total	14,081,377	(514,550)	14,081,377	(514,550)

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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Profit from disposals of property, plant and equipment and right-of-use assets	174,560	62,744	237,350	126,830
Dividend from investment				
Quoted	71,328	24,737	77,760	30,986
Unquoted	129,600	143,079	129,600	143,079
Subsidiaries	707,698	1,634,943	–	–
Recovery of bad debts written off	97,430	28,461	97,430	28,461
Net earned premium	–	–	4,242,248	4,639,833
Others	688,039	1,102,706	799,491	1,025,874
Total	1,868,655	2,996,670	5,583,879	5,995,063

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.

	Bank (Note 11.1)		Group (Note 11.2)	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Loans and advances to other customers	28,366,700	13,282,540	29,374,441	12,863,972
Other financial assets	5,031,360	1,169,644	5,031,360	1,169,644
Contingent liabilities and commitments	(51,609)	20,636	(51,609)	20,636
Others	–	–	(1,355)	431,206
Total impairment charge	33,346,451	14,472,820	34,352,837	14,485,458

11.1 Bank

For the year ended 31 December	Note	2022 Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	17.4	734	16,373	–	17,107
Loans and advances to banks	22.2	(235,379)	–	–	(235,379)
Loans and advances to other customers	23.2.1	(1,815,409)	9,215,436	20,966,673	28,366,700
Debt instruments measured at amortised cost	24.2	–	5,249,114	–	5,249,114
Debt instruments at fair value through OCI	26.2	518	–	–	518
Contingent liabilities and commitments	41.3	(22,024)	106,725	(136,310)	(51,609)
Total impairment charge on financial assets		(2,071,560)	14,587,648	20,830,363	33,346,451
Total impairment charge					33,346,451

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	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	41.3	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
Others					–
Total impairment charge					14,472,820

11.2 Group

For the year ended 31 December	Note	2022 Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	17.4	734	16,373	–	17,107
Loans and advances to banks	22.2	(235,379)	–	–	(235,379)
Loans and advances to other customers	23.2.1	(1,669,045)	9,107,554	21,935,932	29,374,441
Debt instruments measured at amortised cost	24.2	–	5,249,114	–	5,249,114
Debt instruments at fair value through OCI	26.2	518	–	–	518
Contingent liabilities and commitments	41.3	(22,024)	106,725	(136,310)	(51,609)
Total impairment charge on financial assets		(1,925,196)	14,479,766	21,799,622	34,354,192
Others					
Loss on disposal of collaterals including write-offs					(32,966)
Impairment charges for goodwill	29.2				31,611
Total impairment charge					34,352,837

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	41.3	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	29.2				126,209
Total impairment charge					14,485,458

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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Salaries, bonus and related expenses		20,364,710	18,603,077	25,860,327	23,449,166
Contribution to defined benefit plan – pension funds	12.1	2,697,765	783,921	2,697,765	783,921
Contribution to defined benefit plan – gratuity	12.2	44,383	171,742	146,586	297,601
Amortisation of prepaid staff cost		836,693	953,656	836,693	953,656
Others		2,659,197	2,259,539	2,659,197	2,259,539
Total		26,602,748	22,771,935	32,200,568	27,743,883

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 35.1 & Note 35.2).

		Bank		Group	
For the year ended 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Net expense recognised in the income statement					
Defined benefit plan – pre 1996 pension trust fund	35.1.3	2,257,664	1,219,509	2,257,664	1,219,509
Defined benefit plan – post 1996 pension fund	35.2.3	440,101	(435,588)	440,101	(435,588)
		2,697,765	783,921	2,697,765	783,921

12.2 Contribution to defined benefit plan – Gratuity (Note 35.3)

	Bank		Group	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Net expense recognised in the income statement				
Past service cost	(126,496)	79,085	(126,496)	79,085
Current service cost	72,839	34,426	123,941	97,356
Interest cost	98,039	58,231	149,141	121,160
Net expense	44,383	171,742	146,586	297,601

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 & equipment in a state of efficiency has been charged to the income statement in arriving at the profit of the year.

Depreciation & amortisation methods and rates are as stipulated in the Note 28 (property plant and equipment & right of use assets)

		Bank		Group	
For the year ended 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Directors' emoluments		7,127	7,436	22,031	15,355
Auditors' remunerations		7,850	12,940	23,224	26,261
Non-audit fees to auditors		–	–	2,566	2,216
Professional and legal expenses		179,198	133,435	219,667	163,716
Depreciation and amortisation	13.1	4,705,872	5,054,904	5,366,761	5,711,558
Office administration and establishment expenses		10,400,862	7,620,394	12,060,569	9,270,988
Benefits, claims, and underwriting expenditure		–	–	3,480,043	2,951,534
Deposit insurance premium		2,253,144	1,992,415	2,402,371	2,139,069
Others		3,184,734	2,468,054	3,210,551	2,490,474
Total		20,738,787	17,289,578	26,787,783	22,771,171

13.1 Depreciation and amortisation

		Bank		Group	
For the year ended 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Depreciation of property, plant and equipment	28	2,035,637	2,308,320	2,321,035	2,605,467
Amortisation of right-of-use asset	28	2,017,947	2,106,844	2,378,562	2,450,170
Depreciation of investment property		–	1,606	–	1,606
Amortisation of intangible assets	29	652,288	638,134	667,164	654,315
Total		4,705,872	5,054,904	5,366,761	5,711,558

14. INCOME 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.

		Bank		Group	
For the year ended 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Current year tax expense					
Income tax expense	14.1	8,450,869	6,855,681	11,027,952	10,178,826
Prior years' (over)/under provision		(105,881)	174,406	(105,881)	174,406
Deferred tax charge/(credit)	14.2	(2,813,793)	(708,270)	(3,372,002)	(1,539,263)
Deferred tax charge/(credit) on income tax rate change		(1,384,856)	344,640	(1,384,856)	344,640
Total tax expense		4,146,339	6,666,457	6,165,213	9,158,609
Effective tax rate (%)		19.4%	21.9%	23.1%	24.6%

14.1 Reconciliation of tax expenses

	Bank		Group	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Profit before tax for the year	21,338,397	30,386,600	26,690,652	37,246,257
Income tax for the period (accounting profit at applicable tax rate)	5,761,367	7,292,784	6,405,756	8,939,102
Add: Tax effect of expenses that are not deductible for tax purposes	13,874,938	7,665,037	15,287,710	10,292,851
(Less): Tax effect of expenses that are deductible for tax purposes	(11,185,437)	(8,102,140)	(10,665,515)	(9,053,127)
Income tax expense for the period	8,450,868	6,855,681	11,027,952	10,178,826

14.2 The deferred tax charge/(credit) in the Income Statement comprise the following:

	Bank		Group	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Deferred tax assets	513,878	(1,580,036)	611,847	(2,638,261)
Deferred tax liabilities	(4,712,527)	1,216,406	(5,368,705)	1,443,638
Deferred tax (credit)/charge to profit/(loss)	(4,198,649)	(363,630)	(4,756,858)	(1,194,623)

14.3 The deferred tax charge/(credit) in other comprehensive income comprise the following:

	Bank		Group	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Retirement benefit	(991,318)	3,110,193	(953,496)	3,106,359
Revaluation of land and buildings	1,052,155	881,484	1,313,946	917,484
Gain/(loss) from instruments at FVOCI	–	–	(137,822)	(30,075)
Deferred tax effect on change in income tax rate on the opening balance	2,056,688	(245,293)	2,056,688	(245,293)
Deferred tax charge/(credit) to OCI	2,117,525	3,746,384	2,279,316	3,748,475
Net deferred tax for the year	(2,081,124)	3,382,754	(2,477,542)	2,553,852

14.4 Applicable rates on income tax

	2022 %	2021 %
Domestic operation of the Bank	30	24
On-shore banking operations of the Off-Shore Banking Unit	30	24
Off-shore banking operations of the Off-Shore Banking Unit	30	24
People's Leasing and Finance PLC	30	24
People's Travels (Pvt) Ltd.	30	24
People's Micro Finance Limited	30	24
People's Fleet Management Limited	30	24

14.5 Surcharge tax

As per the Surcharge Tax Act No. 14 of 2022, the Bank is liable for a surcharge tax of LKR 5.4 Bn. pertaining to the year of assessment 2020/2021. In accordance with the said Act, the said tax shall be deemed as an expense in the financial year beginning on 1 January 2020. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, this surcharge tax expense has been accounted as permitted under the Statement of Alternative Treatment (SoAT) on Accounting for Surcharge Tax as issued by the Institute of Chartered Accountant of Sri Lanka. Accordingly, the Bank has recognised the total liability to surcharge tax as an adjustment to the opening retained earnings as of 1 January 2022.

	Bank	Group
Surcharge tax	5,439,713	7,932,806

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	2022	2021	2022	2021
Net profit attributable to ordinary equity holders (LKR '000)	17,192,058	23,720,143	19,571,989	26,350,975
Weighted-average number of ordinary shares in issue ('000)	1,000	1,000	1,000	1,000
Basic earnings per share (LKR)	17,192	23,720	19,572	26,351

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	2022	2021	2022	2021
Net profit attributable to ordinary equity holders (LKR '000)	17,192,058	23,720,143	19,571,989	26,350,975
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)	70	97	80	108

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 2022

	2022			
	FVTPL[1]	FVOCI[2]	AC[3]	Total
Assets				
Cash and cash equivalents	–	–	66,842,171	66,842,171
Balances with central banks	–	–	67,602,313	67,602,313
Placements with banks	–	–	–	–
Derivative financial instruments	14,882,584	–	–	14,882,584
Financial assets – at fair value through profit or loss	5,556,754	–	–	5,556,754
Financial assets – at amortised cost				
Loans and advances to banks	–	–	7,689,150	7,689,150
Loans and advances to other customers	–	–	1,783,106,693	1,783,106,693
Debt instruments measured at amortised cost			913,099,927	913,099,927
Financial assets – at fair value through OCI				
Equity instruments at fair value through OCI	–	1,661,656	–	1,661,656
Debt instruments at fair value through OCI	–	10,378,370	–	10,378,370
Total financial assets	20,439,338	12,040,026	2,838,340,254	2,870,819,618

	FVTPL[1]	FVOCI[2]	AC[3]	Total
Liabilities				
Due to banks	–	–	111,452,491	111,452,491
Derivative financial instruments	1,888,478	–	–	1,888,478
Due to other customers	–	–	2,371,518,898	2,371,518,898
Other borrowings	–	–	191,527,573	191,527,573
Subordinated term debts	–	–	36,603,467	36,603,467
Total financial liabilities	1,888,478	–	2,711,102,429	2,712,990,907

[1] Fair Value through Profit or Loss *[2] Fair Value through Other Comprehensive Income* *[3] Amortised Cost*

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

	FVTPL[1]	FVOCI[2]	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*

16.2 Group – 31 December 2022

	2022			
	FVTPL[1]	FVOCI[2]	AC[3]	Total
Assets				
Cash and cash equivalents	–	–	68,077,027	68,077,027
Balances with central banks	–	–	67,602,313	67,602,313
Placements with banks	–	–	3,028,550	3,028,550
Derivative financial instruments	14,882,584	–		14,882,584
Financial assets – at fair value through profit or loss	5,915,926			5,915,926
Financial assets – at amortised cost				
Loans and advances to banks	–	–	7,689,150	7,689,150
Loans and advances to other customers	–	–	1,915,771,684	1,915,771,684
Debt instruments measured at amortised cost			928,885,518	928,885,518
Financial assets – at fair value through OCI				
Equity instruments at fair value through OCI	–	1,844,574	–	1,844,574
Debt instruments at fair value through OCI	–	11,428,832	–	11,428,832
Total financial assets	20,798,510	13,273,406	2,991,054,242	3,025,126,158

	FVTPL[1]	FVOCI[2]	AC[3]	Total
Liabilities				
Due to banks	–	–	122,696,978	122,696,978
Derivative financial instruments	1,888,478	–	–	1,888,478
Due to other customers	–	–	2,450,079,037	2,450,079,037
Other borrowings	–	–	191,527,573	191,527,573
Subordinated term debts	–	–	52,781,563	52,781,563
Total financial liabilities	1,888,478	–	2,817,085,151	2,818,973,629

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*

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

As at 31 December	Note	Bank 2022 LKR '000	Bank 2021 LKR '000	Group 2022 LKR '000	Group 2021 LKR '000
Cash in hand		55,289,725	54,347,698	56,352,806	55,406,177
		55,289,725	54,347,698	56,352,806	55,406,177

17.2 Cash equivalents

Cash at banks		11,577,656	3,198,756	11,749,431	3,438,757
Gross cash equivalents		11,577,656	3,198,756	11,749,431	3,438,757
Less: Allowance for expected credit losses	17.4	(25,210)	(8,103)	(25,210)	(8,103)
Net cash equivalents		11,552,446	3,190,653	11,724,221	3,430,654
Total cash and cash equivalents (Net)		66,842,171	57,538,351	68,077,027	58,836,831

17.3 Analysis of cash equivalents based on exposure to credit risk

Bank

As at 31 December	2022 Stage 1 LKR '000	2022 Stage 2 LKR '000	2022 Stage 3 LKR '000	2022 Total LKR '000
Cash at banks	11,408,630	169,026	–	11,577,656
Total	11,408,630	169,026	–	11,577,656

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

Group

As at 31 December	2022 Stage 1 LKR '000	2022 Stage 2 LKR '000	2022 Stage 3 LKR '000	2022 Total LKR '000
Cash at banks	11,580,405	169,026	–	11,749,431
Total	11,580,405	169,026	–	11,749,431

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	3,160,763	277,994	–	3,438,757
Total	3,160,763	277,994	–	3,438,757

17.4 Allowance for expected credit losses – Cash equivalents

Bank and Group

As at 31 December	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	184	7,918	–	8,103
Gross charge/(reversal) for the year	734	16,373	–	17,107
ECL allowance as at 31 December	918	24,292	–	25,210

	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

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% (4.0% in 2021) 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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Statutory balances with Central Bank of Sri Lanka (Stage 1)	67,602,313	56,717,820	67,602,313	56,717,820
	67,602,313	56,717,820	67,602,313	56,717,820

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.

As at 31 December	Note	Bank		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Placements		–	–	–	–
Fixed deposits		–	–	3,028,550	3,325,726
Gross placements with Banks		–	–	3,028,550	3,325,726
Less: Allowance for expected credit losses	19.2	–	–	–	–
Net placements with Banks		–	–	3,028,550	3,325,726

19.1 Analysis of placements with banks based on exposure to credit risk

Group

As at 31 December	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Placements	–	–	–	–
Fixed deposits	3,028,550	–	–	3,028,550
Total	3,028,550	–	–	3,028,550

As at 31 December	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Placements	–	–	–	–
Fixed deposits	3,325,726	–	–	3,325,726
Total	3,325,726	–	–	3,325,726

19.2 Allowance for expected credit losses – Placements with banks

Bank and Group

As at 31 December	2022			
	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	–			–
ECL allowance 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	31,033	–	–	31,033
Gross charge/(reversal) for the year	(31,033)			(31,033)
ECL allowance as at 31 December	–	–	–	–

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			
	2022		2021		2022		2021	
	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	26,800	11,034,300	201,323	13,289,436	26,800	11,034,300	201,323	13,289,436
Purchases	14,855,784	17,839,343	240,502	25,012,263	14,855,784	17,839,343	240,502	25,012,263
Forward foreign exchange contracts								
Sales	–	–	1	3,490	–	–	1	3,490
Purchases	–	–	51	44,608	–	–	51	44,608
Total	14,882,584	28,873,643	441,877	38,349,797	14,882,584	28,873,643	441,877	38,349,797

20.2 Foreign currency derivatives – Liabilities

	Bank				Group			
	2022		2021		2022		2021	
	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	1,888,105	107,206,938	1,759,061	68,743,157	1,888,105	107,206,938	1,759,061	68,743,157
Purchases	–	–	1,395	1,166,559	–	–	1,395	1,166,559
Forward foreign exchange contracts								
Sales	87	27,742	693	263,697	87	27,742	693	263,697
Purchases	286	117,347	71	122,759	286	117,347	71	122,759
Total	1,888,478	107,352,027	1,761,220	70,296,172	1,888,478	107,352,027	1,761,220	70,296,172

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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Government Securities	21.1	5,314,829	1,276,679	5,314,829	1,276,679
Equity securities – Quoted	21.2	220,663	253,517	579,835	389,158
Unit trusts	21.3	–	–	–	859,055
Debt securities		21,262	28,654	21,262	28,654
Total		5,556,754	1,558,850	5,915,926	2,553,546

21.1 Sri Lanka Government Securities

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Treasury Bills	4,442,690	272,649	4,442,690	272,649
Treasury Bonds	872,139	1,004,030	872,139	1,004,030
Total	5,314,829	1,276,679	5,314,829	1,276,679

21.2 Equity securities

21.2.1 Equity securities – Bank

	Number of shares	Cost 2022 LKR '000	Market value as at 31 December 2022 LKR '000	Number of shares	Cost 2021 LKR '000	Market value as at 31 December 2021 LKR '000
Food and beverage						
Nestle Lanka PLC	25,000	30,520	22,625	16,000	20,000	19,448
Distilleries Company of Sri Lanka PLC	1,700,000	29,550	22,440	1,200,000	21,000	20,400
Ceylon Tobacco Company PLC	25,000	16,800	15,625	10,000	9,000	8,780
Capital goods						
ACL Cables PLC	–	–	–	–	–	–
Access Engineering PLC	393,940	9,401	4,215	393,940	9,401	12,567
Hemas Holdings PLC	755,504	56,093	42,610	755,504	56,093	50,543
Transportation						
EXPO Lanka Holdings PLC	70,000	16,499	12,758	–	–	–
Software and Services						
Hsenid Business Solutions PLC	1,000,000	17,000	17,000	–	–	–
Telecommunication services						
Dialog Axiata PLC	–	–	–	1,000,000	10,850	10,900
Retailing						
John Keells Holdings PLC	92,806	11,044	12,552	200,000	28,688	30,000
Materials						
Chevron Lubricants Lanka PLC	281,564	31,755	27,171	225,000	25,625	25,425
Utilities						
Windforce PLC	1,100,000	20,020	16,390	1,100,000	20,020	20,020
Vallibel Power Erathna PLC	998,142	7,386	6,288	998,142	7,386	8,584
LVL Energy Fund PLC	1,700,000	19,490	10,200	–	–	–
Consumer Durable						
Teejay Lanka PLC	299,813	9,594	9,504	250,000	7,467	11,100
Health care						
Asiri Hospital Holdings PLC	50,000	1,014	1,285	1,100,000	22,311	35,750
Total value of the quoted equity securities		276,165	220,663		237,839	253,517

21.2.2 Equity securities – Group

	Number of shares	Cost 2022 LKR '000	Market value as at 31 December 2022 LKR '000	Number of shares	Cost 2021 LKR '000	Market value as at 31 December 2021 LKR '000
Food and beverage						
Nestle Lanka PLC	25,000	30,520	22,625	16,000	20,000	19,448
Distilleries Company of Sri Lanka PLC	1,700,000	29,550	22,440	1,200,000	21,000	20,400
Ceylon Tobacco Company PLC	25,000	16,800	15,625	10,000	9,000	8,780
Capital goods						
Hayleys PLC	–	–	–	200,000	14,157	13,380
Access Engineering PLC	393,940	9,401	4,215	393,940	9,401	12,567
Hemas Holdings PLC	955,504	70,250	53,890	755,504	56,093	50,543
Transportiaion						
EXPO Lanka Holdings PLC	70,000	16,499	12,758	–	–	–
Software & Services						
Hsenid Business Solutions PLC	1,000,000	17,000	17,000	–	–	–
Telecommunication services						
Dialog Axiata PLC	–	–	–	1,000,000	10,850	10,900
Retailing						
John Keells Holdings PLC	1,456,914	199,338	197,048	200,000	28,688	30,000
Materials						
Chevron Lubricants Lanka PLC	281,564	31,755	27,171	225,000	25,625	25,425
Utilities						
Windforce PLC	1,100,000.00	20,020.00	16,390.00	1,100,000	20,020	20,020
Vallibel Power Erathna PLC	998,142.00	7,386.25	6,288.29	998,142.00	7,386.25	8,584.02
LVL Energy Fund PLC	1,700,000.00	19,490.00	10,200.00	–	–	–
Consumer Durable						
Teejay Lanka PLC	299,813	9,594	9,504	250,000	7,467	11,100
Health care						
Asiri Hospital Holdings PLC	50,000	1,014	1,285	1,100,000	22,311	35,750
Shares Listed In Bangladesh						
British American Tobacco Bangladesh Ltd.	10,000	23,059	18,259	9,000	13,908	13,375
Berger Paints	999	6,310	6,058	2,000	8,416	8,258
Beximco Pharma	12,000	8,285	6,176	–	–	–
BRAC Bank	30,000	5,251	4,066	–	–	–
City Bank	112,500	10,269	8,633	100,000	6,821	6,383
Dutch-Bangla Bank	55,000	14,469	12,120	50,000	9,611	9,131
Eastern Bank	35,000	4,229	3,918	50,000	4,583	4,501
Grameenphone	28,000	33,898	28,249	17,300	15,303	14,138
Marico	1,000	8,729	8,524	3,350	18,541	18,024
Reckitt Benckiser	390	7,119	6,313	195	2,657	2,613
Square Pharma	30,000	24,967	22,156	30,000	16,584	15,032
Summit Power	150,000	25,318	17,953	150,000	16,818	13,643

	Number of shares	Cost 2022 LKR '000	Market value as at 31 December 2022 LKR '000	Number of shares	Cost 2021 LKR '000	Market value as at 31 December 2021 LKR '000
Global Islami Bank	413,291	14,549	13,094	–	–	–
Islami Commercial Insurance	8,798	310	870	–	–	–
Linde (BD) Ltd.	–	–	–	400	1,460	1,478
Renata Ltd.	–	–	–	4,240	13,797	13,805
Walton Hi-Tech Industries	1,900	7,380	7,007	700	1,950	1,880
Total value of quoted equity securities		672,759	579,835		382,445	389,158

21.3 Unit trust - Group

	Number of shares	Cost 2022 LKR '000	Market value as at 31 December 2022 LKR '000	Number of shares	Cost 2021 LKR '000	Market value as at 31 December 2021 LKR '000
NDB Wealth Money Market Plus Fund	–	–	–	6,027,382	2,826,228	149,361
CAL Investment	–	–	–	16,805,463	1,980,197	355,856
JB Vantage Money Market Fund	–	–	–	12,041,494	990,074	353,838
Total value of the unit trusts		–	–		5,796,499	859,055

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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Development Bonds		–	2,678,181	–	2,678,181
Restructuring Bond	22.3	7,689,150	7,689,150	7,689,150	7,689,150
Securities purchased under resale agreements		–	–	–	3,266,103
Total		7,689,150	10,367,331	7,689,150	13,633,434
Less: Allowance for expected credit losses	22.2	–	(235,379)	–	(235,379)
Net loans and advances to banks		7,689,150	10,131,952	7,689,150	13,398,055

22.1 Analysis of loans and advances to banks based on exposure to credit risk

Bank

As at 31 December	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Development Bonds	–	–	–	–
Restructuring Bond	7,689,150	–	–	7,689,150
Total	7,689,150	–	–	7,689,150

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	–	–	–	–
Total	10,367,331	–	–	10,367,331

Group

As at 31 December	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Development Bonds	–	–	–	–
Restructuring Bond	7,689,150	–	–	7,689,150
Securities purchased under resale agreements	–	–	–	–
Total	7,689,150	–	–	7,689,150

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

22.2 Allowance for expected credit losses/impairment losses – Loans and advances to banks

Bank and Group

As at 31 December	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	235,379		–	235,379
Gross charge/(reversal) for the year	(235,379)	–	–	(235,379)
ECL allowance as at 31 December	–	–	–	–

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	101,674	–	–	101,674
Gross charge/(reversal) for the year	133,705	–	–	133,705
ECL allowance as at 31 December	235,379	–	–	235,379

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)	1,152.00	To achieve the capital adequacy requirement in accordance with CBSL Guidelines
(ii)	1,700.50	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)	4,355.00	To finance pension liabilities
(iv)	3,231.00	To provide for loan loss provision
(v)	102.50	For loans to be transferred to Special Recovery Unit (RACA)
	10,541.00	

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 2022 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.

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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Gross loans and advances to other customers	23.1	1,915,788,623	1,936,974,136	2,061,137,431	2,103,642,165
Stage 1		1,306,117,973	1,575,824,249	1,405,038,439	1,685,039,591
Stage 2		276,876,667	207,799,398	297,410,610	235,433,619
Stage 3		332,793,983	153,350,489	358,688,382	183,168,955
Less:					
Allowance for expected credit losses	23.2	(132,681,930)	(101,277,028)	(145,365,747)	(112,953,104)
Stage 1		(6,241,576)	(8,056,985)	(7,647,149)	(9,316,194)
Stage 2		(19,206,289)	(9,990,853)	(20,570,351)	(11,462,797)
Stage 3		(107,234,065)	(83,229,190)	(117,148,247)	(92,174,113)
Net loans and advances to other customers		1,783,106,693	1,835,697,108	1,915,771,684	1,990,689,061

23.1 Analysis of gross loans and advances to other customers

As at 31 December	Note	Bank 2022 LKR '000	Bank 2021 LKR '000	Group 2022 LKR '000	Group 2021 LKR '000
By product					
Bills of exchange		1,829,878	2,213,763	1,829,878	2,213,763
Overdrafts		111,280,950	392,876,794	110,921,942	392,420,308
Trade finance		422,614,740	298,738,212	422,614,740	298,738,212
Credit cards		5,539,640	4,303,245	5,539,640	4,303,245
Pawning		184,777,612	194,769,226	184,777,612	194,769,226
Staff loans	23.1.1	23,847,736	24,983,498	24,672,335	25,646,690
Short-term loans		196,871,457	180,408,077	196,871,457	180,408,077
Long-term loans		895,426,576	838,279,957	968,753,125	911,439,456
Lease rental receivable		–	–	64,175,371	79,230,187
Others		73,600,034	401,364	80,981,331	14,473,001
Gross total		1,915,788,623	1,936,974,136	2,061,137,431	2,103,642,165
By currency					
Sri Lankan rupee		1,332,939,065	1,556,592,444	1,467,886,835	1,717,816,147
United States dollar		578,280,418	377,230,239	578,280,418	377,230,239
Great Britain pound		–	36,523	–	36,523
Others		4,569,140	3,114,929	14,970,178	8,559,255
Gross total		1,915,788,623	1,936,974,136	2,061,137,431	2,103,642,165
By industry					
Agriculture, forestry and fishing		134,358,173	161,150,394	163,635,263	192,922,106
Manufacturing		46,358,536	35,205,619	56,990,560	44,932,244
Tourism		71,719,408	34,571,031	74,644,839	37,919,275
Transport and storage		86,439,525	43,326,667	114,759,034	77,759,704
Construction		585,059,012	407,612,306	594,802,432	419,942,260
Infrastructure development		512,720,027	404,241,424	512,720,027	404,241,424
Wholesale and retail trade		146,766,764	154,280,036	163,682,531	174,047,763
Professional, scientific, and technical activities		36,004,654	52,075,671	36,004,654	52,075,671
Financial services		20,768,596	25,136,683	32,558,503	40,045,319
Consumption		164,721,672	169,404,131	173,004,031	194,735,322
Others		110,872,256	449,970,174	138,335,556	465,021,077
Gross total		1,915,788,623	1,936,974,136	2,061,137,431	2,103,642,165

23.1.1 Staff loans (net)

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Staff loans	34,364,136	35,678,083	35,188,735	36,341,275
(Less): Allowance for day one difference	(10,516,400)	(10,694,585)	(10,516,400)	(10,694,585)
Net staff loans	23,847,736	24,983,498	24,672,335	25,646,690

23.2 Movement in total impairment allowance for loans and advances to other customers

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Opening balance as at 1 January	101,277,028	87,886,600	112,953,104	99,981,244
Net charge for the year	28,366,700	13,282,540	29,374,441	12,863,972
Write-off during the year	(271,801)	(187,681)	(271,801)	(187,681)
Exchange rate variance on foreign currency provisions	3,310,003	295,569	3,310,003	295,569
Closing balance as at 31 December	132,681,930	101,277,028	145,365,747	112,953,104

23.2.1 Movement in allowance for expected credit loss (ECL) based on exposure to credit risk

Bank

	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	8,056,985	9,990,853	83,229,190	101,277,028
Net charge/(reversal) for the year	(1,815,409)	9,215,436	20,966,673	28,366,700
Amounts written off	–	–	(271,801)	(271,801)
Exchange rate variance on foreign currency impairment	–	–	3,310,003	3,310,003
Closing balance as at 31 December	6,241,576	19,206,289	107,234,065	132,681,930

	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

Group

	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	9,316,194	11,462,797	92,174,113	112,953,104
Net charge/(reversal) for the year	(1,669,045)	9,107,554	21,935,932	29,374,441
Amounts written off	–	–	(271,801)	(271,801)
Exchange rate variance on foreign currency impairment	–	–	3,310,003	3,310,003
Closing balance as at 31 December	7,647,149	20,570,351	117,148,247	145,365,747

	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

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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Government Securities					
Treasury Bills		2,296,206	–	12,609,969	9,940,432
Treasury Bonds		898,577,069	573,470,829	900,775,195	575,643,705
International Sovereign Bonds		18,810,234	15,183,821	18,810,234	15,183,821
Investments in unqoted preference shares		–	–	707,656	646,135
Investments in debentures		–	–	2,566,046	–
Total		919,683,509	588,654,650	935,469,100	601,414,093
Less: Allowance for expected credit losses	24.2	(6,583,582)	(1,334,468)	(6,583,582)	(1,334,468)
Total (Net)		913,099,927	587,320,182	928,885,518	600,079,625

24.1 Analysis of debt instruments measured at amortised cost based on exposure to credit risk

Bank

As at 31 December	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities				
Treasury Bonds	2,296,206	–	–	2,296,206
Treasury Bonds	898,577,069		–	898,577,069
International Sovereign Bonds	–	18,810,234	–	18,810,234
Total	900,873,275	18,810,234	–	919,683,509

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

Group

As at 31 December	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities				
Treasury Bonds	12,609,969	–	–	12,609,969
Treasury Bonds	900,775,195	–	–	900,775,195
International Sovereign Bonds	–	18,810,234	–	18,810,234
Investments in preference shares	707,656	–	–	707,656
Investments in debenture	2,566,046	–	–	2,566,046
Total	916,658,866	18,810,234	–	935,469,100

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

24.2 Allowance for expected credit losses/impairment losses – Debt instruments measured at amortised cost

Bank and Group

	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	1,334,468	–	–	1,334,468
Transfer from Stage 1 to Stage 2	(1,334,468)	1,334,468		–
Gross charge/(reversal) for the year		5,249,114	–	5,249,114
ECL allowance as at 31 December	–	6,583,582	–	6,583,582

	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

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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Equity securities – Unquoted	25.1	377,106	403,168	377,116	403,178
Equity securities – Quoted	25.2	1,284,550	1,218,207	1,467,458	1,485,966
Total		1,661,656	1,621,375	1,844,574	1,889,144

25.1 Equity securities – Unquoted

25.1.1 Bank

Name	Number of shares 31.12.2022	Fair value as at 31.12.2022 LKR '000	Cost as at 31.12.2022 LKR '000	Number of shares 31.12.2021	Fair value as at 31.12.2021 LKR '000	Cost as at 31.12.2021 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	171,689	162,300	16,448,448	162,064	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	168,004	177,259	5,112,735	203,691	175,469
Total		377,106	432,686		403,168	430,897

25.1.2 Group

Name	Number of shares 31.12.2022	Fair value as at 31.12.2022 LKR '000	Cost as at 31.12.2022 LKR '000	Number of shares 31.12.2021	Fair value as at 31.12.2021 LKR '000	Cost as at 31.12.2021 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	171,689	162,300	16,448,448	162,064	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	168,004	175,469	5,112,735	203,691	175,469
Total		377,116	430,907		403,178	430,907

25.2 Equity securities – Quoted

25.2.1 Bank

Name	Number of shares 31.12.2022	Fair value as at 31.12.2022 LKR '000	Cost as at 31.12.2022 LKR '000	Number of shares 31.12.2021	Fair value as at 31.12.2021 LKR '000	Cost as at 31.12.2021 LKR '000
Overseas Reality (Ceylon) PLC	30,538,203	455,019	622,979	30,538,203	586,333	518,963
The Finance PLC	2,080,400	–	10,818	2,080,400	–	83,400
People's Merchant Finance PLC – Ordinary Shares	33,856,246	128,654	311,477	33,856,246	230,222	311,477
The Lanka Hospitals Corporation PLC	7,316,042	700,877	307,274	7,316,042	401,652	307,274
Total		1,284,550	1,252,549		1,218,207	1,221,114

25.2.2 Group

Name	Number of shares 31.12.2022	Fair value as at 31.12.2022 LKR '000	Cost as at 31.12.2022 LKR '000	Number of shares 31.12.2021	Fair value as at 31.12.2021 LKR '000	Cost as at 31.12.2021 LKR '000
Overseas Reality (Ceylon) PLC	30,538,203	455,019	518,963	30,538,203	586,333	518,963
The Finance PLC	2,080,400	–	83,400	2,080,400	–	83,400
Sanasa Development Bank PLC	2,271,260	48,605	203,382	2,271,260	97,664	203,382
The Lanka Hospitals Corporation PLC	7,316,042	700,877	307,274	7,316,042	401,652	307,274
People`s Merchant Finance PLC – Ordinary Shares	58,870,248	223,707	–	58,870,248	400,317	423,866
Asiri Hospital Holdings PLC	500,000	12,850	20,730	–	–	–
LB Finance PLC	5,000,000	11,500	50,000	–	–	–
Windforce PLC	1,000,000	14,900	18,489	–	–	–
Total		1,467,458	1,202,238		1,485,966	1,536,885

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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Government Securities	701,468	–	965,695	303,426
Debt securities	9,676,902	9,399,272	10,463,137	10,293,297
Total	10,378,370	9,399,272	11,428,832	10,596,723

26.1 Analysis of debt instruments at fair value through OCI based on exposure to credit risk

Bank

As at 31 December	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities	701,468	–	–	701,468
Debt securities	9,380,893	296,009	–	9,676,902
Total	10,082,361	296,009	–	10,378,370

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

Group

As at 31 December	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities	965,695	–	–	965,695
Debt securities	10,167,128	296,009	–	10,463,137
Total	11,132,823	296,009	–	11,428,832

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

26.2 Allowance for expected credit losses – Debt instruments at fair value through OCI

Bank and Group

As at 31 December	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January	1,053	296,009	–	297,062
Gross charge/(reversal) for the year	518	–	–	518
ECL allowance as at 31 December	1,571	296,009		297,580

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

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 derecognises 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 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.

As at 31 December	Note	Bank 2022 LKR '000	Bank 2021 LKR '000	Group 2022 LKR '000	Group 2021 LKR '000
Investment in quoted subsidiaries	27.1	4,275,572	3,567,874	–	–
Investment in unquoted subsidiaries	27.2	4,950	4,950	–	–
Total		4,280,522	3,572,824	–	–

27.1 Investment in quoted subsidiaries

	Number of shares	Holding as at 31.12.2022 %	Cost 2022 LKR '000	Number of shares	Holding as at 31.12.2021 %	Cost 2021 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	346,515,469		3,584,614	230,499,388		2,876,916
			4,275,572			3,567,874

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 31.12.2021 %	Cost 2021 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 2022 %	Ownership interest held by NCI 2021 %
People's Leasing & Finance PLC	No. 1161, Maradana Road, Colombo 8, Sri Lanka	Leasing and finance	25.0%	25.0%

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	
	2022 LKR '000	2021 LKR '000
Statement of Comprehensive Income		
Revenue	37,880,769	32,384,527
Profit/(loss) after tax	4,096,866	6,123,083
Other comprehensive income	1,767,901	134,032
Total comprehensive income	5,864,767	6,257,115
Statement of Financial Position		
Total assets	195,211,042	204,246,451
Total liabilities	(146,964,584)	(159,172,869)
Net assets	48,246,458	45,073,582
Dividends paid to NCI during the year	198,803	150,000

28. 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.

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*

Derecognition

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 derecognised.

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.

28.1 Property, plant and equipment and 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	22,530,046	6,311,790	2,581,074	1,514,079	614,375	4,772,697
Additions	64,000	18,818	175,087		70,027	355,512
Disposals	–	–		(17,424)	(8,257)	(10,839)
Transfers/adjustments					25	–
Transfers from investment property		–				
Revaluation adjustment on accumulated depreciation	–	(382,312)	(168,648)	–	–	–
Revaluation surplus	1,485,952	1,450,624	570,607	–	–	–
Balance as at 31 December	24,079,999	7,398,919	3,158,121	1,496,655	676,169	5,117,370
Accumulated depreciation						
Balance as at 1 January	–	–	–	1,476,442	422,915	3,595,240
Charge for the year	–	382,312	168,648	20,908	75,099	527,811
Disposals	–	–	–	(17,421)	(4,967)	(11,035)
Transfers/adjustments	–	–	–	–	–	–
Revaluation adjustment on accumulated depreciation		(382,312)	(168,648)	–	–	–
Balance as at 31 December	–	–	–	1,479,929	493,047	4,112,016
Net book value as at 31 December 2022	24,079,999	7,398,919	3,158,121	16,726	183,123	1,005,354
Capital work-in-progress at cost						
Furniture equipment and machinery at store					7,091	43,518

28.1.1 On 1 July 2020 - the Bank carried out an independent valuation of all it's land and buildings. This valuation was carried out by Messrs. Prathap Chartered Valuations & Consultancy (Private) Limited together with D Prathapasinghe [FRICS (UK), Professional Associate Member (IVSL) MBA (UK), BSc. Est. Mgt. & Val. (sp) (Hons) (SJP), PG Dip Eco. Dev. (Colombo), Dip. Surv. (Reading – UK)], an Independent Valuer, on a fair value basis. Further the Bank carried-out a desktop basis review of the fair value of properties estimated as of 31 December 2022. Book values of these properties were adjusted for the revalued amounts and revaluation surplus was credited accordingly to the revaluation reserve.

28.1.2 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.

28.1.3 Property, plant and equipment retired from active use

There were no property, plant and equipment retired from active use as at 31 December 2022

28.1.4 Title restriction on property, plant and equipment

There were no restriction on the title of property, plant and equipment as at 31 December 2022

Right-of-use assets						Total 2022	Total 2021
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
7,090,548	45,414,609	1,007,237	4,819,542	10,293,265	16,120,044	61,534,652	50,563,504
458,832	1,142,275	–	1,733,365	402,451	2,135,816	3,278,091	8,509,988
(35,975)	(72,496)	–	(1,690,446)	(217,951)	(1,908,397)	(1,980,893)	(1,791,617)
	25	–	–	–	–	25	10,511
	–					–	1,239,931
–	(550,960)	–	–	–	–	(550,960)	(670,517)
–	3,507,183	–	–	–	–	3,507,183	3,672,851
7,513,405	49,440,637	1,007,237	4,862,461	10,477,765	16,347,463	65,788,100	61,534,652
5,254,281	10,748,878	624,580	1,604,946	3,721,255	5,950,781	16,699,659	13,659,573
860,860	2,035,637	16,104	767,902	1,233,941	2,017,947	4,053,584	4,415,164
(35,813)	(69,236)		(746,028)	(167,237)	(913,265)	(982,501)	(717,454)
–	–	–	–	–	–	–	12,891
–	(550,960)	–	–	–	–	(550,960)	(670,517)
6,079,328	12,164,320	640,684	1,626,820	4,787,959	7,055,463	19,219,783	16,699,658
1,434,077	37,276,317	366,553	3,235,641	5,689,806	9,292,000	46,568,317	44,834,994
						2,549,513	1,747,521
161,641	–	–	–	–		212,250	178,642
						49,330,080	46,761,157

28.1.5 Unobservable inputs considered in measuring fair value

On 1 July 2020 – the Bank carried out an independent valuation of all it's land and buildings. The following table depicts information about significant unobservable inputs used in measuring fair value of the assets categorised under Level 3 of the fair value hierarchy.

		2020		
Type of Asset	Valuation technique	Significant unobservable inputs	Range of estimates for unobservable inputs	Sensitivity of fair value to unobservable inputs
Freehold land	Comparison method of valuation	Property Transaction evidences, internal data from previous valuations and asking prices	LKR 70,000 – LKR 35,000,000	Positively correlated sensitivity
Freehold buildings	1. Depreciated replacement cost method and comparison method of valuation 2. Investment method of valuation and comparison method of valuation	Estimated cost per square feet, estimated rate of all types of depreciations and obsolescence and rental evidences	LKR 10,000 – LKR 45,000	Positively correlated sensitivity
Buildings on leasehold lands	Depreciated replacement cost method and comparison method of valuation	Property transaction evidences, internal data from previous valuations and asking prices	LKR 250 – LKR 8,000	Positively correlated sensitivity

28.2 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	25,540,222	10,972,450	2,666,837	1,928,742	1,178,200	5,811,061
Additions	64,000	18,818	175,087	14,490	90,401	390,829
Disposals	–	–	–	(59,698)	(22,363)	(37,413)
Transfers/adjustments	–	–	–	(7,204)	25	–
Transfers from investment property	–	–	–	–	–	–
Exchange rate variance	–	–	–	6,560	9,929	3,889
Revaluation adjustment on accumulated depreciation		(382,312)	(168,648)	–	–	–
Revaluation surplus	2,263,898	1,545,315	570,607	–	–	–
Balance as at 31 December	27,868,121	12,154,270	3,243,884	1,882,890	1,256,191	6,168,366
Accumulated depreciation						
Balance as at 1 January	–	63,599	56,576	1,663,832	909,279	4,368,658
Charge for the year	–	445,646	168,648	52,197	110,197	593,264
Disposals	–	–	–	(23,527)	(18,358)	(66,049)
Transfers/adjustments	–	(471)	–	–	–	–
Exchange rate variance	–	–	–	2,108	6,581	2,631
Revaluation adjustment on accumulated depreciation	–	(382,312)	(168,648)	–	–	–
Balance as at 31 December	–	126,462	56,576	1,694,609	1,007,699	4,898,504
Net book value as at 31 December 2022	27,868,121	12,027,808	3,187,308	188,281	248,493	1,269,861
Capital work-in-progress at cost						
Furniture equipment and machinery at store					7,091	43,518

Computer	Total property, plant and equipment	Right-of-use assets: Leased lands	Buildings	ATM/CDM and KIOSK machines	Total right-of-use assets	Total 2022	Total 2021
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
8,071,663	56,169,175	1,090,099	7,006,607	10,293,265	18,389,971	74,559,146	63,359,901
533,851	1,287,475	–	2,324,797	402,451	2,727,248	4,014,723	9,293,938
(96,267)	(215,742)	–	(1,964,189)	(217,951)	(2,182,140)	(2,397,882)	(2,366,595)
–	(7,179)	–	–	–	–	(7,179)	(125,631)
–	–	–	–	–	–	–	1,239,931
8,648	29,026	–	–	–	–	29,026	5,268
–	(550,960)					(550,960)	(670,517)
–	4,379,820	–	–	–	–	4,379,820	3,822,851
8,517,895	61,091,617	1,090,099	7,367,215	10,477,765	18,935,079	80,026,696	74,559,146
6,063,358	13,125,301	667,677	2,538,783	3,721,255	6,927,715	20,053,016	16,759,944
951,084	2,321,035	16,104	1,128,517	1,233,941	2,378,562	4,699,597	5,055,637
(95,507)	(203,441)	–	(841,949)	(167,237)	(1,009,186)	(1,212,627)	(1,092,072)
–	(471)	–	–	–	–	(471)	–
8,452	19,772	–	–	–	–	19,772	24
–	(550,960)	–	–	–	–	(550,960)	(670,517)
6,927,387	14,711,237	683,781	2,825,351	4,787,959	8,297,091	23,008,328	20,053,016
1,590,508	46,380,380	406,318	4,541,864	5,689,806	10,637,988	57,018,368	54,506,130
						2,549,513	1,747,521
161,641						212,250	178,642
						59,780,131	56,432,293

29. 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.

29.1 Intangible assets

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cost				
As at beginning of the year	4,192,328	2,178,831	4,437,688	2,412,278
Additions during the year	293,921	2,013,497	305,459	2,025,317
Disposals during the year	–	–	–	–
Adjustments during the year		–	1,250	93
As at end of the year	4,486,249	4,192,328	4,744,397	4,437,688
Accumulated amortisation				
As at beginning of the year	2,114,784	1,476,650	2,325,296	1,670,922
Charge for the year	652,288	638,134	667,164	654,315
Adjustments during the year	–	–	1,016	59
As at end of the year	2,767,072	2,114,784	2,993,476	2,325,296
Net book value	1,719,177	2,077,544	1,750,921	2,112,392

29.2 Goodwill

As at 31 December	2022 LKR '000	2021 LKR '000
Cost		
As at beginning of the year	417,099	417,099
Goodwill on acquisition	–	–
Disposals/reversals during the year	–	–
As at end of the year	417,099	417,099
As at end of the year		
Accumulated impairment		
As at beginning of the year	276,934	150,725
Impairment for the year	31,611	126,209
As at end of the year	308,545	276,934
Net book value	108,554	140,165
Total net book value	1,859,475	2,252,557

30. 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.

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 35.2.

		Bank		Group	
As at 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Deposits and prepayments		3,466,288	1,660,821	3,466,288	1,660,821
Unamortised day one difference on staff loans		10,516,400	10,694,585	10,516,400	10,694,585
Receivables		20,952,657	12,242,022	20,952,657	12,242,022
Insurance and insurance receivables		–	–	1,078,841	937,273
Net employee benefit asset – Post – 1996 pension fund	35.2	4,762,504	4,856,219	4,762,504	4,856,219
Others		6,181,206	5,348,577	5,592,124	5,005,810
Total		45,879,055	34,802,224	46,368,814	35,396,730

31. 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.

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Money market borrowings	71,691,176	79,531,761	71,691,176	79,531,761
Call money borrowing	–	7,899,999	–	7,899,999
Other borrowings	39,761,315	20,314,156	51,005,802	34,966,065
Total	111,452,491	107,745,916	122,696,978	122,397,825

32. 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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Total amount due to other customers	2,371,518,898	2,071,532,612	2,450,079,037	2,168,674,742
Total	2,371,518,898	2,071,532,612	2,450,079,037	2,168,674,742

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Analysis				
By product				
Demand deposits (current accounts)	79,218,921	82,017,571	75,298,448	80,875,217
Savings deposits	659,375,654	765,520,568	663,567,709	771,920,432
Fixed deposits	1,629,227,409	1,220,073,509	1,707,318,257	1,310,277,325
Other products	3,696,914	3,920,964	3,894,623	5,601,768
Total	2,371,518,898	2,071,532,612	2,450,079,037	2,168,674,742
By currency				
Sri Lanka rupee	2,072,686,232	1,855,776,571	2,151,246,371	1,952,918,701
United State dollar	272,861,192	199,214,526	272,861,192	199,214,526
Great Britain pound	5,326,011	3,589,704	5,326,011	3,589,704
Others	20,645,463	12,951,811	20,645,463	12,951,811
Total	2,371,518,898	2,071,532,612	2,450,079,037	2,168,674,742

33. 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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Central Bank of Sri Lanka	497,732	2,115,072	497,732	2,115,072
Other financial institutions	5,642,582	5,797,709	5,642,582	5,797,709
Borrowing under repurchase agreement	185,387,259	233,506,344	185,387,259	233,506,344
Total	191,527,573	241,419,125	191,527,573	241,419,125

34. NET DEFERRED TAX LIABILITIES

As at 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Deferred tax liabilities	10,394,689	9,621,453	12,863,963	12,079,557
Deferred tax assets	(9,788,482)	(6,934,123)	(12,293,434)	(8,884,843)
Net deferred tax liabilities	606,207	2,687,330	570,529	3,194,714

Bank

As at 31 December	2022				2021			
	Deferred tax asset	Deferred tax liability	Statement of profit or loss	Statement of comprehensive income	Deferred tax asset	Deferred tax liability	Statement of profit or loss	Statement of comprehensive income
Retirement benefit	3,212,986	1,713,074	(207,690)	(213,770)	4,523,533	3,445,081	930,463	3,596,246
Impairment allowance for loan receivables	6,526,751	–	(4,276,497)	–	2,250,254	–	(956,089)	–
Accelerated depreciation allowance for tax purpose – PPE		1,233,759	173,948	–		1,059,811	(360,577)	(25,499)
Revaluation of freehold land and building		7,447,856		2,331,295		5,116,561		175,637
Right-of-use asset	48,745		111,590		160,336		22,573	
	9,788,482	10,394,689	(4,198,649)	2,117,525	6,934,123	9,621,453	(363,630)	3,746,384

Group

As at 31 December	2022				2021			
	Deferred tax asset	Deferred tax liability	Statement of profit or loss	Statement of comprehensive income	Deferred tax asset	Deferred tax liability	Statement of profit or loss	Statement of comprehensive income
Retirement benefit	5,717,938	6,480,582	(301,435)	(175,935)	6,474,253	5,215,322	956,073	3,592,412
Carry forward tax losses	–	–	–	–	–	–	3,701	–
Impairment allowance for loan receivables	6,526,751	(2,235,080)	(4,649,145)	–	2,250,254	(967,210)	(974,035)	–
Deferred tax on transitional adjustment	–	(295,502)	(59,100)	–	–	(214,911)	51,583	–
Accelerated depreciation allowance for tax purpose – (Lease)	–	306,274	(103,663)	–	–	560,772	(1,003,434)	–
Accelerated depreciation allowance for tax purpose – (PPE)	–	1,240,985	152,220	–	–	1,432,955	(217,083)	(25,499)
Fair value gain/(loss) – investment properties	–	–	–	–	–	–	–	–
Financial assets at fair value through OCI		(232,405)		(137,822)				
Revaluation of freehold land and building		7,619,296	97,969	2,593,073	–	6,108,829	2,844	
Right-of-use asset	48,745	(20,187)	106,296	–	160,336	(56,200)	(14,272)	181,562
	12,293,434	12,863,963	(4,756,858)	2,279,316	8,884,843	12,079,557	(1,194,623)	3,748,475

35. OTHER LIABILITIES

As at 31 December	Note	Bank 2022 LKR '000	Bank 2021 LKR '000	Group 2022 LKR '000	Group 2021 LKR '000
Deferred income in respect of off-balance sheet items		362,241	444,889	362,241	444,889
Expected credit loss in respect of contingent liabilities and commitments		516,606	568,215	516,606	568,215
Sundry creditors		5,819,218	3,791,322	5,819,218	3,791,322
Net defined benefit obligation – Pre-1996 Pension Trust Fund	35.1	4,901,096	4,842,402	4,901,096	4,842,402
Provision for gratuity	35.3	735,160	381,416	1,442,536	1,124,965
Lease liability	35.4	9,330,861	10,244,653	10,726,390	11,572,070
Payable on other expenses		4,828,274	5,365,380	5,275,287	5,687,830
Insurance liabilities and reinsurance payable		–	–	4,891,896	4,979,084
Other liabilities		80,271,594	5,464,457	82,026,444	10,440,754
Total		106,765,050	31,102,734	115,961,714	43,451,531

35.1 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:

As at 31 December	Note	Bank 2022 LKR '000	Bank 2021 LKR '000	Group 2022 LKR '000	Group 2021 LKR '000
Fair value of plan assets	35.1.1	(56,390,526)	(52,518,847)	(56,390,526)	(52,518,847)
Present value of obligations	35.1.2	61,291,622	57,361,249	61,291,622	57,361,249
Net defined benefit obligation		4,901,096	4,842,402	4,901,096	4,842,402

35.1.1 Fair value of plan assets

As at 31 December	Bank 2022 LKR '000	Bank 2021 LKR '000	Group 2022 LKR '000	Group 2021 LKR '000
Plan assets comprise:				
Fixed deposits	38,804,750	26,666,000	38,804,750	26,666,000
Government Securities	17,087,176	12,970,962	17,087,176	12,970,962
Debentures	–	12,500,000	–	12,500,000
Net current assets	498,600	381,885	498,600	381,885
Total	56,390,526	52,518,847	56,390,526	52,518,847
Actual return on plan assets	6,152,855	3,381,542	6,152,855	3,381,542

Movement in the fair value of plan assets

As at 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Fair value of plan assets as at 1 January	52,518,847	48,662,274	52,518,847	48,662,274
Expected return on plan assets	5,553,265	3,799,741	5,553,265	3,799,741
Benefit paid by the plan	(6,460,222)	(6,032,549)	(6,460,222)	(6,032,549)
Actual employer contribution	4,179,047	6,507,580	4,179,047	6,507,580
Actuarial gain/(losses)	599,589	(418,199)	599,589	(418,199)
Fair value of plan assets as at 31 December	56,390,526	52,518,847	56,390,526	52,518,847

35.1.2 Movement in the present value of the defined benefit obligations

As at 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Defined benefit obligations as at 1 January	57,361,249	67,814,044	57,361,249	67,814,044
Benefit paid by the plan	(6,460,222)	(6,032,549)	(6,460,222)	(6,032,549)
Current service cost	400,743	658,471	400,743	658,471
Interest cost	6,309,737	5,404,779	6,309,737	5,404,779
Plan amendment[1]	1,100,448	(1,044,000)	1,100,448	(1,044,000)
Actuarial (gain)/losses	2,579,667	(9,439,495)	2,579,667	(9,439,495)
Present value of defined benefit obligation as at 31 December	61,291,622	57,361,249	61,291,622	57,361,249

35.1.3 Net expenses recognised in income statement

As at 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Current service cost	400,743	658,471	400,743	658,471
Interest cost	6,309,737	5,404,779	6,309,737	5,404,779
Expected return	(5,553,265)	(3,799,741)	(5,553,265)	(3,799,741)
Plan amendment[1]	1,100,448	(1,044,000)	1,100,448	(1,044,000)
Net expenses	2,257,664	1,219,509	2,257,664	1,219,509

[1] The plan was amended to comply with the provisions of staff circular, where all participants' compulsory Normal Retirement Age is now age 60. (They have the option of retiring as early as age 55). The change in the PVDBO is recognised immediately in the income statement as this is considered as a plan amendment.

35.1.4 Actuarial (gains)/losses recognised in other comprehensive income

As at 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Amount accumulated in retained earnings as at 1 January	(14,995,365)	(24,016,661)	(14,995,365)	(24,016,661)
Recognised during the year	(1,980,078)	9,021,296	(1,980,078)	9,021,296
Amount accumulated in retained earnings as at 31 December	(16,975,443)	(14,995,365)	(16,975,443)	(14,995,365)

35.1.5 Actuarial assumptions

The following are the principal actuarial assumptions as at the reporting date:

	Bank		Group	
As at 31 December	2022 %	2021 %	2022 %	2021 %
Financial assumptions				
Discount rate	18.00	11.00	18.00	11.00
Increase in cost of living allowances	12.50	5.50	5.00	5.50
Future gross salary increase	15.00	9.00	15.00	9.00
Demographic assumptions				
Mortality table	RP – 2000	RP – 2000	RP – 2000	RP – 2000

35.1.6 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	2022		2021		2022		2021	
	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%	3,411,129	(3,411,129)	3,651,894	(3,651,894)	3,411,129	(3,411,129)	3,651,894	(3,651,894)
-1%	(3,799,039)	3,799,039	(4,131,568)	4,131,568	(3,799,039)	3,799,039	(4,131,568)	4,131,568
Increase/(decrease) in salary increment								
1%	(356,732)	356,732	(598,742)	598,742	(356,732)	356,732	(598,742)	598,742
-1%	340,856	(340,856)	564,668	(564,668)	340,856	(340,856)	564,668	(564,668)

35.2 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:

As at 31 December	Note	Bank 2022 LKR '000	Bank 2021 LKR '000	Group 2022 LKR '000	Group 2021 LKR '000
Fair value of plan assets	35.2.1	12,565,415	10,038,600	12,565,415	10,038,600
Present value of obligations	35.2.2	(7,802,911)	(5,182,381)	(7,802,911)	(5,182,381)
Net defined benefit asset/(obligation)		4,762,504	4,856,219	4,762,504	4,856,219

35.2.1 Fair value of plan assets

As at 31 December	Bank 2022 LKR '000	Bank 2021 LKR '000	Group 2022 LKR '000	Group 2021 LKR '000
Plan assets comprise:				
Fixed deposits	11,703,541	9,839,526	11,703,541	9,839,526
Net current assets	861,874	199,074	861,874	199,074
Total	12,565,415	10,038,600	12,565,415	10,038,600
Actual return on plan assets	1,276,635	481,614	1,276,635	481,614

Movement in the fair value of plan assets

As at 31 December	Bank 2022 LKR '000	Bank 2021 LKR '000	Group 2022 LKR '000	Group 2021 LKR '000
Fair value of plan assets as at 1 January	10,038,600	8,513,023	10,038,600	8,513,023
Expected return on plan assets	1,141,686	754,766	1,141,686	754,766
Benefit paid by the plan	(43,950)	(60,001)	(43,950)	(60,001)
Actual employer contribution	1,294,130	1,103,964	1,294,130	1,103,964
Actuarial gain/(losses)	134,950	(273,152)	134,950	(273,152)
Fair value of plan assets as at 31 December	12,565,415	10,038,600	12,565,415	10,038,600

35.2.2 Movement in the present value of the defined benefit obligations

As at 31 December	Bank 2022 LKR '000	Bank 2021 LKR '000	Group 2022 LKR '000	Group 2021 LKR '000
Defined benefit obligations as at 1 January	5,182,381	8,657,210	5,182,381	8,657,210
Benefit paid by the plan	(43,950)	(60,001)	(43,950)	(60,001)
Current service cost	402,798	775,291	402,798	775,291
Interest cost	590,791	770,492	590,791	770,492
Plan amendment[1]	588,198	(1,226,605)	588,198	(1,226,605)
Actuarial (gain)/losses	1,082,693	(3,734,006)	1,082,693	(3,734,006)
Present value of defined benefit obligation as at 31 December	7,802,911	5,182,381	7,802,911	5,182,381

35.2.3 Net expenses recognised in Income Statement

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Current service cost	402,798	775,291	402,798	775,291
Interest cost	590,791	770,492	590,791	770,492
Expected return	(1,141,686)	(754,766)	(1,141,686)	(754,766)
Plan amendment[1]	588,198	(1,226,605)	588,198	(1,226,605)
Net expenses	440,101	(435,588)	440,101	(435,588)

[1] The plan was amended to comply with the provisions of the staff circular where all participants' compulsory Normal Retirement Age is now age 60. (They have the option of retiring as early as age 55). The change in the PVDBO is recognized immediately in the income statement as this is considered as a plan amendment.

35.2.4 Actuarial (gains)/losses recognised in other comprehensive income

	Bank		Group	
As at 31 December	2021 LKR '000	2021 LKR '000	2021 LKR '000	2021 LKR '000
Amount accumulated in retained earnings as at 1 January	334,189	(3,126,665)	334,189	(3,126,665)
Recognised during the year	(947,743)	3,460,854	(947,743)	3,460,854
Amount accumulated in retained earnings as at 31 December	(613,554)	334,189	(613,554)	334,189

35.2.5 Actuarial assumptions

The following are the principal actuarial assumptions as at the reporting date:

	Bank		Group	
As at 31 December	2022 %	2021 %	2022 %	2021 %
Financial assumptions				
Discount rate	18.00	11.40	18.00	11.40
Increase in cost of living allowance	12.50	5.50	12.50	5.50
Future gross salary increase	15.00	6.50	15.00	6.50
Demographic assumptions				
Mortality table	RP – 2000	RP – 2000	RP – 2000	RP - 2000

35.2.6 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	2022		2021	
	Effect on statement of comprehensive income increase/ (reduction) LKR '000	Effect on employee benefit obligation increase/(reduction) in the liability LKR '000	Effect on statement of comprehensive income increase/ (reduction) LKR '000	Effect on employee benefit obligation increase/(reduction) in the liability LKR '000
Increase/(decrease) in discount rate				
1%	1,155,342	(1,155,342)	936,395	(936,395)
-1%	(1,428,681)	1,428,681	(1,210,579)	1,210,579
Increase/(decrease) in salary increment				
1%	(1,793,030)	1,793,030	(852,923)	852,923
-1%	1,032,749	(1,032,749)	710,924	(710,924)

35.3 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".

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Balance as at 1 January	381,416	722,474	1,124,965	1,350,596
Past service cost	(126,496)	79,085	(126,496)	79,085
Current service cost	72,839	34,426	123,941	97,356
Interest cost	98,039	58,231	149,141	121,160
Benefits paid during year	(67,211)	(35,813)	(78,962)	(61,657)
Actuarial losses/(gains) on obligations	376,572	(476,987)	249,947	(461,575)
Balance as at 31 December	735,160	381,416	1,442,536	1,124,965

35.3.1 The Principal financial assumptions used in the valuations are as follows:

	Bank	
	2022	2021
Discount rate	18.0 % p.a	11.5 % p.a
Gross salary increase for all grades	15.0 % p.a	9.0% p.a
Normal age of retirement	60 years	62 years

35.3.2 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:

	2022		2021	
	Effect on statement of comprehensive Income 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%	50,705	(50,705)	354,835	(354,835)
-1%	(42,465)	42,465	(411,686)	411,686
Increase/(decrease) in salary increment				
1%	(414,168)	414,168	(414,168)	414,168
-1%	352,282	(352,282)	352,282	(352,282)

35.4 Lease liability

	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Balance as at 1 January	10,244,653	6,017,463	11,572,070	7,415,918
Additions/renewals during the year	2,103,876	7,212,905	2,643,068	7,395,957
Terminations during the year	(1,117,999)	(1,020,454)	(1,357,213)	(1,103,372)
Accretion of interest	607,754	583,020	782,854	767,602
Payments during the year	(2,507,423)	(2,548,281)	(2,914,389)	(2,904,035)
Balance as at 31 December	9,330,861	10,244,653	10,726,390	11,572,070

35.4.1 Amounts recognised in Income Statement

		Bank		Group	
For the year ended 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Interest on lease liabilities	7.2	607,754	583,020	782,854	767,602
Amortisation of right of use asset	13.1	2,017,947	2,106,844	2,378,562	2,450,170
		2,625,701	2,689,864	3,161,416	3,217,772

35.4.2 Amounts recognised in the Statement of Cash Flows

	Bank		Group	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Repayment of lease liabilities	2,507,423	2,548,281	2,914,389	2,904,035
	2,507,423	2,548,281	2,914,389	2,904,035

36. 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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Issued by the Bank							
(i) Tranche 2	13.5% – Biannually	30 December 2009	29 December 2022	–	2,501,849	–	2,501,849
(ii) Tranche 3	13.0% – Biannually	30 December 2011	29 December 2022	–	5,003,562	–	5,003,562
(iii) Tranche 4	13.0% – Biannually	15 June 2013	29 December 2022	–	5,030,273	–	5,030,273
(iv) Type A	12.0% – Annually	8 November 2019	8 November 2024	6,706,228	6,679,516	6,706,228	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	13,430,490	13,559,773	13,430,490	13,559,773
(vii) Type B	10.25% – Annually	27 July 2020	27 July 2030	7,415,026	7,283,433	7,415,026	7,283,433
Additional Tier 1 Capital Bond							
AT I – Bond	13.5% – Annually	29 March 2021	N/A	3,859,877	3,746,582	3,859,877	3,746,582
AT I – Bond	31.03% – Annually	3 August 2021	N/A	1,692,556	1,557,401	1,692,556	1,557,401
Issued by the subsidiary							
Senior, unsecured, redeemable, 'AA(-) rated							
Type A	12.4% – Annually	23 April 2018	18 April 2022	–	–	–	762,449
Type B	12.8% – Annually	23 April 2018	18 April 2023	–	–	5,631,423	5,628,592
Type A	8.0% – Annually	5 August 2021	5 August 2024	–	–	3,030,434	3,028,472
Type B	8.0% – At Maturity	5 August 2021	5 August 2024	–	–	2,691,584	2,490,192
Type C	9.0% – Annually	5 August 2021	5 August 2026			4,413,676	4,412,374
Type D	9.0% – Annually	5 August 2021	5 August 2026	–	–	410,779	376,706
Total				36,603,467	48,861,680	52,781,563	65,560,465
Due within 1 year				–	12,535,684	5,631,423	13,298,133
Due after 1 year				36,603,467	36,325,996	47,150,140	52,262,332
Total				36,603,467	48,861,680	52,781,563	65,560,465

36.1 Movement in subordinated term debts

	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Balance as at 1 January	48,861,680	43,557,696	65,560,465	56,868,035
Proceed received from subordinated debt	–	5,000,000	–	15,000,000
Repayment of subordinated debt	(12,500,000)	–	(12,500,000)	(7,230,443)
Interest expense on subordinated debt	5,503,630	5,103,325	7,060,585	6,966,957
Interest paid on subordinated debt	(5,261,843)	(4,799,341)	(7,339,487)	(6,044,084)
Balance as at 31 December	36,603,467	48,861,680	52,781,563	65,560,465

37. STATED CAPITAL/ASSIGNED CAPITAL

		Bank		Group	
As at 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Stated capital	37.1	49,998	49,998	49,998	49,998
Assigned capital	37.2	12,152,000	12,152,000	12,152,000	12,152,000
		12,201,998	12,201,998	12,201,998	12,201,998

37.1 Stated capital

37.1.1 Movement of stated capital

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Authorised				
1,000,000,000 ordinary shares of 50/- each	50,000,000	50,000,000	50,000,000	50,000,000

In September 2019, the People`s Bank Act No. 29 of 1961 was amended whereby, amongst other, the Bank's authorised share capital was increased to Rs. 50.0 Bn. from Rs. 1.0 Bn. previously.

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 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.

37.1.2 Principal shareholders of the Bank are as follows:

As at 31 December	2022 %	2021 %
Government of Sri Lanka	92.27	92.27
Cooperative Societies	7.73	7.73
	100.00	100.00

37.2 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%.

38. 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% of the Bank's paid-up capital until the Permanent Reserve is equal to 50% of the paid-up capital and not less than 2% until the Permanent Reserve equals the paid- up capital. Accordingly, Bank has transferred LKR 860 Mn. for the current year.

	Bank		Group	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Balance as at 1 January	9,210,528	8,024,521	9,210,528	8,024,521
Transfer to reserve during the year	859,603	1,186,007	859,603	1,186,007
Balance as at 31 December	10,070,131	9,210,528	10,070,131	9,210,528

39. OTHER RESERVES

39.1 Revaluation reserve

This reserve has been created in accordance with Sri Lanka Accounting Standard – LKAS 16 – "Property, Plant and Equipment"

39.2 Capital reserve

This reserve has been created in 1987 and increased in 1998, has no transferred to date.

39.3 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.

39.4 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.

39.5 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.

39.6 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 661 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.

40. RETAINED EARNINGS

		Bank		Group	
As at 31 December	**Note**	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Balance as at 1 January		78,762,283	48,897,842	104,755,265	72,268,676
Surcharge tax levied under surcharge tax Act No. 14 of 2022	14.5	(5,439,713)	–	(7,309,533)	–
Adjusted balance as at 1 January		73,322,570	48,897,842	97,445,732	72,268,676
Total comprehensive income					
Profit for the year		17,192,058	23,720,143	19,571,989	26,350,975
Other comprehensive income (Net of taxes)		(4,369,763)	10,094,237	(4,302,473)	10,085,553
Transfer to reserve during the year	38	(859,603)	(1,753,051)	(859,603)	(1,753,051)
Special levy to treasury dividend	39.6	(661,090)	(2,196,888)	(661,090)	(2,196,888)
Balance as at 31 December		84,624,172	78,762,283	111,194,555	104,755,265

40.1 Movement in reserves – Bank

	Statutory reserve	Revaluation reserve	Capital reserve	Special risk reserve	General reserve	Financial assets at FVOCI reserve	Retained earnings	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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) on debt instruments at fair value through OCI	–	–	–	–	–	713	–	713
Net actuarial gains and losses on defined benefit plans	–	–	–	–	–		12,959,137	12,959,137
Deferred tax effect 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	1,186,007	–	–	–	567,044		(1,753,051)	–
Special levy to treasury/dividend	–	–	–	–	–		(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
Surcharge tax levied under Surcharge Tax Act No. 14 of 2022 (Note 14.5)							(5,439,713)	(5,439,713)
Balance as at 1 January 2022	9,210,528	21,540,300	5,663	1,633,710	12,502,000	220,614	73,322,570	118,435,385
Profit for the year	–	–	–	–	–	–	17,192,058	17,192,058
Net gains/(losses) on equity instruments at fair value through OCI	–	–	–	–	–	52,869	–	52,869
Net gains/(losses) (including change in ECL) on debt instruments at fair value through OCI						(12,354)		(12,354)
Net Defined Benefit obligation	–	–	–	–	–	–	(3,304,393)	(3,304,393)
Deferred tax effect gain/(losses) on defined benefit plans							991,318	991,318
Deferred tax effect on change in income tax rate on the opening balance							(2,056,688)	(2,056,688)
Revaluation surplus of land and building	–	3,507,183	–	–	–	–	–	3,507,183
Deferred tax effect on revaluation surplus		(1,052,155)	–	–	–	–	–	(1,052,155)
Transfer to reserve during the year (Note 38)	859,603	–	–	–	–	–	(859,603)	–
Special levy to treasury/ dividend (Note 39.6)	–	–	–	–	–	–	(661,090)	(661,090)
Balance as at 31 December 2022	10,070,131	23,995,328	5,663	1,633,710	12,502,000	261,129	84,624,172	133,092,133

40.2 Movement in reserves – Group

	Statutory reserve	Revaluation reserve	Capital reserve	Special risk reserve
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January 2021	8,024,521	20,587,993	5,663	1,633,710
Profit for the year	–	–	–	–
Net gains/(losses) on equity instruments at fair value through OCI	–	–	–	–
Net gains/(losses) on debt instruments at fair value through OCI	–	–	–	–
Deferred tax effect on above				
Net gains/(losses) on translating the financial statements of foreign operation	–		–	–
Net actuarial gains and losses on defined benefit plans	–	–	–	–
Deferred tax effect on defined benefit plans	–	–	–	–
Revaluation surplus on land and building	–	3,785,351	–	–
Deferred tax effect on revaluation surplus		(908,484)		
Deferred Tax Effect on change in income tax rate on the opening balance		–		
Transfer to reserve during the year	1,186,007	–	–	–
Special levy to treasury/dividend	–	–	–	–
Dividend payment	–	–	–	–
Balance as at 31 December 2021	9,210,528	23,464,860	5,663	1,633,710
Surcharge tax levied under Surcharge Tax Act No. 14 of 2022 (Note 14.5)				
Balance as at 1 January 2022	9,210,528	23,464,860	5,663	1,633,710
Profit for the year	–	–	–	–
Net gains/(losses) on equity instruments at fair value through OCI	–	–	–	–
Net gains/(losses) (including change in ECL) on debt instruments at fair value through OCI				
Deferred tax effect on above				
Net gains/(losses) on translating the financial statements of foreign operation	–	–	–	–
Net defined benefit obligation	–	–	–	–
Deferred tax effect gain/(losses) on defined benefit plans	–	–	–	–
Deferred tax effect on change in income tax rate on the opening balance				
Revaluation surplus on land and building	–	4,185,333	–	–
Deferred tax effect on revaluation surplus	–	(1,255,600)	–	–
Transfer to reserve during the year (Note 38)	859,603	–	–	–
Special levy to treasury/dividend (Note 39.6)	–	–	–	–
Dividend payment	–	–	–	–
Balance as at 31 December 2022	10,070,131	26,394,593	5,663	1,633,710

General reserve LKR '000	Financial assets at FVOCI reserve LKR '000	Exchange equalisation fund LKR '000	Retained earnings LKR '000	Total LKR '000	Non-controlling interest LKR '000	Total LKR '000
11,934,956	492,808	268,532	72,268,676	115,216,859	11,691,908	126,908,767
–		–	26,350,975	26,350,975	1,736,673	28,087,648
–	(291,223)	–	–	(291,223)	(21,754)	(312,977)
–	(69,418)	–	–	(69,418)	(23,139)	(92,557)
	22,556	–	–	22,556	7,519	30,075
–		130,593	–	130,593	43,531	174,124
–		–	12,947,578	12,947,578	(3,853)	12,943,725
–		–	(3,107,318)	(3,107,318)	959	(3,106,359)
–		–	–	3,785,351	37,500	3,822,851
				(908,484)	(9,000)	(917,484)
			245,293	245,293	–	245,293
567,044		–	(1,753,051)	–	–	–
–		–	(2,196,888)	(2,196,888)	–	(2,196,888)
–	–	–	–	–	(150,000)	(150,000)
12,502,000	154,723	399,125	104,755,265	152,125,874	13,310,344	165,436,218
			(7,309,533)	(7,309,533)	(623,273)	(7,932,806)
12,502,000	154,723	399,125	97,445,732	144,816,341	12,687,071	157,503,412
–			19,571,989	19,571,989	953,450	20,525,439
–	(80,773)	–	–	(80,773)	(40,429)	(121,202)
	(224,992)			(224,992)	(74,997)	(299,989)
	103,367			103,367	34,455	137,822
–		565,090	–	565,090	893,342	1,458,432
–		–	(3,208,737)	(3,208,737)	31,663	(3,177,074)
–		–	962,952	962,952	(9,456)	953,496
			(2,056,688)	(2,056,688)	–	(2,056,688)
–		–	–	4,185,333	194,487	4,379,820
–		–		(1,255,600)	(58,346)	(1,313,946)
–		–	(859,603)	–	–	–
–		–	(661,090)	(661,090)	–	(661,090)
–		–	–	–	(198,803)	(198,803)
12,502,000	(47,675)	964,215	111,194,555	162,717,192	14,412,436	177,129,629

41. 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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Contingent liabilities	41.1	302,336,794	350,270,683	302,740,138	351,023,683
Commitments	41.2	68,828,585	79,068,727	73,064,804	93,386,727
Less:		371,165,379	429,339,410	375,804,942	444,410,410
Allowance for expected credit losses	41.3	(516,606)	(568,215)	(516,606)	(568,215)
		370,648,773	428,771,195	375,288,336	443,842,195

41.1 Contingent liabilities

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Acceptances	74,070,645	94,817,795	74,070,645	94,817,795
Documentary credit	22,841,324	73,281,666	22,841,324	73,281,666
Guarantees	68,387,765	74,070,212	68,791,109	74,823,212
Forward exchange contracts	137,037,060	108,101,010	137,037,060	108,101,010
Total	302,336,794	350,270,683	302,740,138	351,023,683

41.2 Commitments

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Undrawn overdrafts and loans	68,828,585	79,068,727	73,064,804	93,386,727
	68,828,585	79,068,727	73,064,804	93,386,727

41.3 Movement in allowance for expected credit loss (ECL) based on exposure to credit risk

Bank and Group	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	79,236	254,318	234,661	568,215
Net charge/(reversal) for the year	(22,024)	106,725	(136,310)	(51,609)
Closing balance as at 31 December	57,212	361,043	98,351	516,606

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

41.4 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	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Approved and contracted for	1,036,951	362,824	1,036,951	362,824
Approved but not contracted for	213,309	398,592	213,309	398,592
	1,250,260	761,416	1,250,260	761,416

41.5 Assessment received by the Bank

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

Income tax

Notice of assessment issued for income tax for the years of assessment, 2018/19 LKR 5,646 Mn. (0201819002) and discussion is going on for full settlement. 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.	Court of Appeal

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, 2018 and 2019 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), LKR 1,309.2 Mn. and (7501920001) LKR 1,099.0 Mn.

41.6 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 9.7 Bn., of which details are given below:

Zone	Region	Total LKR '000
Western I	Gampaha	1,000,000
Western II	Kaluthara	31,103,166
Central	Kandy	18,085,772
	Matale	14,552,000
	Nuwara Eliya	–
Wayamba	Kurunegala	27,619,146
Sabaragamuwa	Rathnapura	1,000,000
Eastern	Ampara	10,000,000
	Batticaloa	500,000
North Central	Anuradhapura	8,322,000
Southern	Galle	250,000,000
	Matara	18,350,000
Uva	Badulla	2,000,000
Legal/Special Assets Unit/Corporate Banking Division		9,342,995,717
		9,725,527,801

42. SUBSEQUENT EVENTS

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

43. 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.

43.1 Parent and the ultimate controlling party

People's Bank is a Sri Lankan Government owned Bank.

43.2 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 Personnel 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 dependents of the individual or the individual's domestic partner.

43.2.1 Compensation of Key Management Personnel (KMPs)

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Short-term employee benefits	41,958	38,053
Post-employment pension	2,349	1,390
Termination benefits	-	-

43.2.2 Transactions with Key Management Personnel (KMPs)

For the year ended 31 December	2022 LKR '000	2021 LKR '000
a. Items in income statement		
Interest income	3,923	108
Interest expenses	14,666	1,849

As at 31 December	2022 LKR '000	2021 LKR '000
b. Items in statement of financial position		
Term loans	26,832	25,290
Overdrafts	-	-
Credit cards	2,823	1,599
Deposits	74,313	62,694

43.2.3 Transactions with Close Family Members (CFMs) of the Key Management Personnel (KMP)

For the year ended 31 December	2022 LKR '000	2021 LKR '000
a. Items in income statement		
Interest income	437	-
Interest expenses	38	23

As at 31 December	2022 LKR '000	2021 LKR '000
b. Items in statement of financial position		
Term loans	-	-
Overdrafts	-	-
Deposits	861	575

43.3 Transactions with Group entities

The Group entities include the subsidiaries and associates of the Bank.

43.3.1 Transactions with subsidiaries, sub-subsidiaries 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		Sub-subsidiary companies of the Bank	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
a. Items in income statement				
Interest income	16,691	117,685	33,793	16,885
Interest expense	13,393,139	889,348	252,574	29,173
Dividend income	707,698	1,634,944	–	–
Other income	50,776	50,884	84,179	361,017
Other expenses	–	–	670,613	123,604

	Subsidiary companies of the Bank		Sub-subsidiary companies of the Bank	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
b. Items in statement of financial position				
Assets				
Investments	4,280,522	3,572,824	–	–
Loans	–	–	69,262	139,245
Overdrafts	34,671	316,103	323,257	140,383
Assets backed securities	–	563,525	–	–
Other receivables	–	20,423	220,691	207,126
	4,315,193	4,472,875	613,211	486,754
Liabilities				
Deposits	22,930,649	11,164,554	2,000,069	673,225
Securities sold under repurchase agreements	10,333,763	6,247,581	–	–
Other payables	–	–	102,800	76,276
	33,264,412	17,412,135	2,102,868	749,501

	Subsidiary companies of the Bank		Sub-subsidiary companies of the Bank	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
c. Off-balance sheet items				
Guarantees	20,000	10,000	–	–

43.4 Transactions with Government of Sri Lanka (GOSL) and State Owned Enterprises (SOEs)

Transactions and arrangements entered into by the Bank with the Government of Sri Lanka and State Owned Enterprises as follows:

For the year ended 31 December	2022 LKR '000	2021 LKR '000
a. Items in income statement		
Interest income	160,961,076	93,242,042
Other income	168,409	524,197
Interest expenses	36,095,281	12,465,608
Tax payments Inland Revenue Department – VAT	8,195,633	6,861,930
Income tax	4,146,339	6,666,457
Other taxes	1,051,062	603,684

As at 31 December	2022 LKR '000	2021 LKR '000
b. Items in statement of financial position		
Assets		
Balances with CBSL	67,602,313	56,717,820
Investment in Government Securities	933,388,956	285,114,839
Loans and receivables – Term loans	707,565,659	575,064,841
– Overdrafts	61,374,355	352,041,725
– Bills	55,290	8,705
– Default LCs	71,876,916	
	1,841,863,489	1,268,947,931
Liabilities		
CBSL borrowings	176,027,732	2,115,072
Deposits – Demand	33,585,021	31,028,025
– Savings	26,578,383	28,039,434
– Time	182,741,129	165,539,102
	418,932,265	226,721,633

As at 31 December	2022 LKR '000	2021 LKR '000
c. Items in statement of changes in equity		
Dividends paid	219,690	219,690
Special levy	441,400	1,977,198

As at 31 December	2022 LKR '000	2021 LKR '000
d. Off-balance sheet items		
Acceptances	510,098	83,541,231
Documentary credit	6,626,744	29,527,335
Guarantees	9,407,001	7,594,673
	16,543,843	120,663,239

43.5 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:

43.5.1 Transactions with Pre-1996 Pension Trust Fund

For the year ended 31 December	2022 LKR '000	2021 LKR '000
a. Items in income statement		
Interest income	91,468	0
Other income	3	2,554
Interest expenses	7,245,954	3,934,580
Contribution made	2,257,663	1,219,508

As at 31 December	2022 LKR '000	2021 LKR '000
b. Items in statement of financial position		
Liabilities		
Deposits	39,369,185	26,796,188
Securities sold under repurchase agreements	13,869,176	13,467,012
Subordinated term debts	-	12,535,685

43.5.2 Transactions with Post-1996 Pension Fund

For the year ended 31 December	2022 LKR '000	2021 LKR '000
a. Items in income statement		
Interest expenses	1,484,460	560,017
Contribution made	356,651	(435,588)

As at 31 December	2022 LKR '000	2021 LKR '000
b. Items in statement of financial position		
Liabilities		
Deposits	12,717,355	10,079,128

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

44.1 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

44.2 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.

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.

44.3 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	2022				2022			
	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	–	14,882,584	–	14,882,584	–	14,882,584	–	14,882,584
Financial assets – At fair value through profit or loss								–
Treasury Bills and Bonds	5,314,829	–	–	5,314,829	5,314,829	–	–	5,314,829
Quoted – Equity securities	220,663	–	–	220,663	579,835	–	–	579,835
– Debt securities	11,191	10,071	–	21,262	11,191	10,071	–	21,262
– Unit trusts	–	–	–	–	–	–	–	–
Equity instruments at fair value through OCI								
Unquoted equity securities	–	–	377,106	377,106	–	–	377,116	377,116
Quoted equity securities	1,284,550	–	–	1,284,550	1,467,458	–	–	1,467,458
Debt instruments at fair value through OCI								
Treasury Bills and Bonds	701,468			701,468	965,695			965,695
Debt securities	9,380,893	296,009	–	9,676,902	10,167,128	296,009		10,463,137
Non-financial assets measured at fair value				–				–
Land and building			34,637,038	34,637,038			43,083,236	43,083,236
	16,913,594	15,188,664	35,014,144	67,116,402	18,506,136	15,188,664	43,460,352	77,155,152
Financial liabilities								
Derivative financial instruments								
Forward foreign exchange contracts		1,888,478		1,888,478		1,888,478		1,888,478

	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			403,168	403,168
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

44.4 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 2022 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 2022 LKR '000	As at 1 January 2022 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 2022 LKR '000
Financial assets										
Financial investments available for sale										
Unquoted equity securities	403,168	–	(26,062)		377,106	403,178	–	(26,062)	–	377,116
Total Level 3 financial assets	403,168	–	(26,062)	–	377,106	403,178	–	(26,062)	–	377,116
Financial liabilities	–	–	–	–	–	–	–	–	–	–
Total Level 3 financial liabilities	–	–	–	–	–	–	–	–	–	–
Total net Level 3 financial assets/ (liabilities)	403,168	–	(26,062)	–	377,106	403,178	–	(26,062)	–	377,116

	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 available for sale										
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

44.5 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.

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			
	2022		2021		2022		2021	
	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	66,842,171	66,842,171	57,538,351	57,538,351	68,077,027	68,077,027	58,836,831	58,863,831
Balances with central banks	67,602,313	67,602,313	56,717,820	56,717,820	67,602,313	67,602,313	56,717,820	56,717,820
Placements with banks	–	–	–	–	3,028,550	3,028,550	3,325,726	3,325,726
Loans and receivables to banks	7,689,150	7,689,150	10,131,952	10,131,952	7,689,150	7,689,150	13,398,055	13,398,055
Loans and receivables to other customers	1,783,106,693	1,781,262,625	1,835,697,108	1,834,826,961	1,915,771,684	1,913,927,416	1,990,689,061	1,989,818,915
Debt instruments measured at amortised cost	913,099,927	639,329,496	587,320,182	527,600,968	928,885,518	654,318,731	600,076,625	540,360,411
Financial liabilities								
Due to banks	111,452,491	111,452,491	107,745,916	107,745,916	122,696,978	122,696,978	122,397,825	122,397,825
Due to other customers	2,371,518,898	2,334,416,188	2,071,532,612	2,067,513,813	2,450,079,037	2,450,079,037	2,168,674,742	2,164,655,943
Other borrowings	191,527,573	191,527,573	241,419,125	241,419,125	191,527,573	191,527,573	241,419,125	241,419,125
Subordinated term debts	36,603,467	36,603,467	48,861,680	48,861,680	52,781,563	52,781,563	65,560,465	65,560,465

45. 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

NOTES TO THE FINANCIAL STATEMENTS

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	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Income from external customers								
Net interest income*	116,900,765	56,157,112	17,207,213	9,865,874	(60,617,165)	16,025,384	73,490,813	82,048,370
Net fee and commission income	8,277,276	6,134,924	7,641,299	1,531,140	(349,505)	4,318	15,569,070	7,670,382
Net gain (loss) from trading	6,488,818	(1,504,413)	5,408,714	1,304,327	5,128,693	(1,144,943)	17,026,226	(1,345,029)
Others	1,598,297	2,678,707	89,378	106,533	(628,773)	(1,535,509)	1,058,902	1,249,731
Total operating income from external customers	133,265,156	63,466,330	30,346,605	12,807,874	(56,466,750)	13,349,250	107,145,011	89,623,454
Inter-segment revenue								
Net interest income			2,267,252	412,470			2,267,252	412,470
Net fee and commission income							–	–
Net gain (loss) from trading							–	–
Others	102,055	111,996			707,698	1,634,943	809,753	1,746,939
Total inter-segment revenue	102,055	111,996	2,267,252	412,470	707,698	1,634,943	3,077,005	2,159,409
Total operating income	133,367,211	63,578,326	32,613,857	13,220,344	(55,759,052)	14,984,193	110,222,016	91,782,863
Total incurred expenses							(88,883,619)	(61,396,263)
Share of profits/(loss) of associates (Net of tax)								
Income tax expenses							(4,146,339)	(6,666,457)
Profit for the year							17,192,058	23,720,143
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	1,081,498,611	1,354,278,016	917,405,552	711,968,532	973,124,289	581,393,988	2,972,028,452	2,647,640,536
Total assets	1,081,498,611	1,354,278,016	917,405,552	711,968,532	973,124,289	581,393,988	2,972,028,452	2,647,640,536
Segment liabilities	949,377,538	1,289,615,996	805,911,742	647,074,896	1,071,445,042	574,872,548	2,826,734,321	2,511,563,440
Total liabilities	949,377,538	1,289,615,996	805,911,742	647,074,896	1,071,445,042	574,872,548	2,826,734,321	2,511,563,440
Total equity and liabilities	1,081,498,611	1,354,278,016	917,405,552	711,968,532	973,124,289	581,393,988	2,972,028,452	2,647,640,536

** Interbank segments are subject to internal transfer pricing mechanism.*

NOTES TO THE FINANCIAL STATEMENTS

Leasing		Insurance		Travels		Unallocated		Eliminations		Group	
2022 LKR '000	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**	**2021 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
16,228,255	14,168,431	1,306,704	651,855	9,303	6,123					91,035,075	96,874,779
816,002	1,376,968			–	–					16,385,072	9,047,350
(24,144)	64,169	17,754	73,252	–	–					17,019,836	(1,207,608)
71,076	(23,631)	4,514,579	4,881,147	34,013	6,807		(118,991)	(94,691)	–	5,583,879	5,995,063
17,091,189	15,585,937	5,839,037	5,606,254	43,316	12,930	–	(118,991)	(94,691)	–	130,023,862	110,709,584
(2,262,574)	(409,426)			(4,678)	(3,044)			–	–	–	–
								–	–	–	–
								–	–	–	–
114,211	110,530	556,452	299,713					(1,480,417)	(2,157,182)	–	–
(2,148,363)	(298,896)	556,452	299,713	(4,678)	(3,044)	–	–	(1,480,417)	(2,157,182)	–	–
14,942,826	15,287,041	6,395,489	5,905,967	38,638	9,886	–	(118,991)	(1,575,108)	(2,157,182)	130,023,862	110,709,584
(9,796,985)	(7,844,943)	(5,397,184)	(4,732,832)	(28,140)	(22,420)	–	–	772,719	522,239	(103,333,210)	(73,474,219)
										–	10,893
(1,682,964)	(2,301,820)	(364,317)	(190,332)	–	–			28,407		(6,165,213)	(9,158,609)
3,462,877	5,140,278	633,989	982,803	10,498	(12,534)	–	(118,991)	(773,982)	(1,634,943)	20,525,439	28,087,648
										953,450	1,736,673
										19,571,989	26,350,975
										(39,329)	12,786,691
										20,486,110	40,874,339
										1,924,169	1,768,436
										18,561,941	39,105,903
181,468,519	191,247,846	11,237,585	11,051,872	95,530	84,441			(31,695,506)	(17,414,707)	3,133,134,578	2,832,609,988
181,468,519	191,247,846	11,237,585	11,051,872	95,530	84,441	–	–	(31,695,506)	(17,414,707)	3,133,134,578	2,832,609,988
137,873,553	151,170,236	6,586,073	6,055,889	23,988	24,092			(27,414,987)	(13,841,885)	2,943,802,952	2,654,971,772
137,873,553	151,170,236	6,586,073	6,055,889	23,988	24,092	–	–	(27,414,987)	(13,841,885)	2,943,802,952	2,654,971,772
181,468,519	191,247,846	11,237,585	11,051,872	95,530	84,441			(31,695,506)	(17,414,707)	3,133,134,578	2,832,609,988

46. NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Depreciation of property, plant and equipment	2,035,637	2,308,320	2,321,035	2,605,467
Amortisation of right-of-use asset	2,017,947	2,106,844	2,378,562	2,450,170
Amortisation of intangible assets	652,288	638,134	667,164	654,315
Depreciation of investment property	–	1,606	–	1,606
Impairment losses on financial assets	33,346,451	14,472,820	34,354,192	14,054,252
Other impairments	–	–	(1,355)	431,206
Profit on sale of fixed assets	(174,560)	(62,744)	(237,350)	(126,830)
Changes in derivative financial instruments	(14,313,449)	440,500	(14,313,449)	440,500
Changes in fair value of trading securities	228,331	101,474	228,331	101,474
Scrip dividend income	(707,698)	(1,634,943)	–	–
Share of (profits)/loss of associates and fair value loss on disposal	–	–	–	108,098
Premium amortisation of held-to-maturity investments	3,222,354	2,061,178	3,222,354	2,061,178
Interest expense on lease liabilities	607,754	583,020	782,854	767,602
Total	26,915,055	21,016,209	29,402,338	23,549,038

47. CHANGES IN OPERATING ASSETS

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Held at fair value through profit or loss	(4,226,235)	44,764,703	(3,590,711)	50,073,569
Net increase in balance with Central Bank	(10,884,493)	(42,521,255)	(10,884,493)	(42,521,255)
Net increase in placement with Bank	–	10,304,422	297,176	10,585,098
Net increase in loans and advances to banks	2,442,802	13,478,149	5,708,905	10,224,645
Net increase in loans and advances to customers	19,243,964	(214,590,585)	40,563,185	(228,511,999)
Net increase/(decrease) in financial investments FVOCI	(978,864)	(6,765,999)	(1,208,730)	(7,789,341)
Change in other assets	(11,069,274)	(11,041,378)	(10,939,118)	(10,298,882)
Total	(5,472,100)	(206,371,943)	19,946,214	(218,238,165)

48. CHANGES IN OPERATING LIABILITIES

	Bank		Group	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Changes in due to banks	3,706,575	(56,743,707)	299,153	(50,041,970)
Change in deposits from banks, customers and debt securities issued	299,986,286	236,433,156	281,404,295	233,480,702
Change in other borrowings	(49,891,552)	205,056,691	(49,891,552)	205,056,691
Change in other liabilities	70,367,203	(2,292,978)	68,938,040	26,453
Total	324,168,512	382,453,165	300,749,935	388,521,877

49. 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 and information security risk. However, with the rapid technological innovations/IT based products and 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 integrated 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 Board Integrated Risk Management Committee (BIRMC) 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 Board Executive Credit Committee (BECC), Board Audit Committee (BAC) and the Board Investment Banking Committee (BIBC) also support the Board in discharging its risk related duties. Executive committees namely, the Assets and Liabilities Management Committee (ALCO) and the Operational Risk Management Committee (ORMC) and the Credit Risk Management Committee (CRMC) 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 Defence 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.

Risk mitigation

The Bank carefully analyzes and imposes risk mitigating measurements, Continuous monitoring and reporting to the board/management committees, obtains various types of collateral and establishes maximum prudential limits in order to mitigate various risks.

Risk Management and Credit Control Department

The Risk Management and Credit Control Department (RM and CC) holds overall executive responsibility for the Bank's risk management functions. The Department is headed by the DGM-Risk Management who reports directly to the BIRMC and operates independently of business units as well as profit and volume targets. The Credit Pre-Review Unit, Credit Post–Review Unit, Treasury Middle Office and Operational Risk Unit have been established separately under the guidance of DGM-Risk Management with specific responsibilities to handle 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.

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

Customers that have been assessed individually and found not to be impaired are then assessed collectively together with the loans below the individual threshold in groups of loans with similar risk characteristics. Customer exposure which are above the set threshold, but no conditions exists under objective evidence are also considered under collective impairment assessment. In line with the requirements of the standard, several estimates have been factored in by the Management when determining the expected credit losses under the general approach.

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 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.

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 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.

As at 31 December	2022 LKR '000	2021 LKR '000
Individually significant impaired loans		
Amortised cost	298,784,804	125,004,857
Allowances for impairment	(73,125,073)	(64,681,231)
Carrying amount as at 31 December	225,659,731	60,323,626
Collectively assessed loans		
Amortised cost	1,617,003,819	1,811,969,279
Allowances for impairment	(59,556,857)	(36,595,796)
Carrying amount as at 31 December	1,557,446,962	1,775,373,482

PD estimation process

Probability of default is the likelihood of a borrower defaulting on its financial obligations either over the next 12 months (i.e. 12 month PD) or over the remaining lifetime (i.e. lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due (i.e. number of days passed since the due date) is the main determinant of the PD estimation process. In this process historical information pertaining to five years have been used depending on the nature of the product. Accordingly, exposures are categorised among five buckets 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 expected exposure in the event of a default. 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 the 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.

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 considered in computation of LGD. 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 2022	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	17.4	918	24,292	–	25,210
Loans and receivables to banks	22.2	–	–		–
Loans and receivables to other customers	23.2.1	6,241,576	19,206,289	107,234,065	132,681,930
Debt instruments at amortised cost	24.2	–	6,583,582	–	6,583,582
Debt instruments at fair value through OCI	26.2	1,571	296,009	–	297,580
Total impairment for expected credit losses		6,244,065	26,110,172	107,234,065	139,588,302

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
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

Forward looking information in the ECL Model under Multiple Economic Scenarios

The Bank incorporates forward looking information in its measurement of expected credit losses under three main scenarios namely best case, base case and worst case.

Probability weighting for scenarios

As at 31 December	2022 %	2021 %
Best case	10	20
Base case	10	20
Worst case	80	60

The base case refers to the most likely outcome and is aligned with the information used by the Bank for its other operational purposes. The key drivers of credit risk both quantitative and qualitative identified in its impairment assessment are as following. Quantitative economic factors are based on economic data and forecasts published by CBSL and other reliable sources such as Asian Development Bank, World Bank and etc.

Quantitative drivers of credit risk	Qualitative drivers of credit risk
GDP growth	Status of Industry business
Inflation	Regulatory impact
Interest rate (AWPLR)	Government policies
Exchange rate	Average loan to value ratio
Unemployment rate	

Sensitivity of impairment provision on loans and advances to other customers

The Bank has estimated its provisions on expected credit losses (ECL) to other customers as at 31 December 2022 based on various assumptions. The changes to such assumptions may lead to changes in the impairment provision recorded in the statement of financial position.

The following table demonstrates the sensitivity of the provisions on expected credit losses (ECL) to other customers as at 31 December 2022 to possible changes in the PDs, LGDs and forward looking macro economic information.

	Sensitivity effect on statement of financial position [Increase/(decrease) in impairment provision]				Sensitivity effect on income statement
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	
Probability of Default (PD)					
PD 1% increase across all age buckets	3,281,672	300,384	–	3,582,056	(3,582,056)
PD 1% decrease across all age buckets	(1,092,133)	(300,384)	–	(1,392,517)	1,392,517
Loss Given Default					
LGD 5% increase	1,135,407	1,441,201	1,170,733	3,747,341	(3,747,341)
LGD 5% decrease	(1,135,407)	(1,441,201)	(1,170,733)	(3,747,341)	3,747,341
Probability weighted forward looking macro economic indicators					
Worst case 10% increase, base case 5% decrease and best case 5% decrease	106,900	110,149	–	217,049	(217,049)
Worst case 10% decrease, base case 5% increase and best case 5% increase	(106,900)	(110,378)	–	(217,278)	217,278

Reconciliation of changes in credit-impaired (stage 3) loans and advances

	2022 LKR '000
Stage 3 loans and advances to other customers as at 1 January	153,350,489
Newly classified as impaired loans and advances during the year	158,736,343
Net change in already impaired loans and advances during the year	34,036,335
Net payment, write off and recoveries and other movements during the year	(13,329,184)
Impaired loans and advances to customers as at 31 December	332,793,983

Provision for impairment (ECL) movement

The following table shows reconciliation from the opening to closing balance of the provision for impairment of loans and advances to other customers.

	12 month ECL (Stage 1) LKR '000	Lifetime ECL-not credit impaired (Stage 2) LKR '000	Lifetime ECL-credit impaired (Stage 3) LKR '000	Total LKR '000
Provision for impairment (ECL) as at 1 January 2022	8,056,985	9,990,853	83,229,190	101,277,028
Transfer to Stage 1	240,401	(175,262)	(65,139)	–
Transfer to Stage 2	(1,383,973)	1,422,630	(38,656)	–
Transfer to Stage 3	(625,452)	(2,428,405)	3,053,857	–
Net remeasurement of impairment	101,138	11,314,251	19,155,151	30,570,540
New assets originated or purchased	2,697,396	1,831,007	1,423,477	5,951,880
Financial assets derecognised or repaid (excluding write offs)	(2,844,918)	(2,748,784)	(2,562,017)	(8,155,719)
Write offs and recoveries	–	–	(271,802)	(271,802)
Foreign exchange adjustments	–	–	3,310,003	3,310,003
Provision for impairment (ECL) as at 31 December 2022	6,241,576	19,206,289	107,234,065	132,681,930

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 in the Bank's Credit Policy Guideline and Credit Procedure Manual 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, movables, trade receivables, debt securities, inventory, cash deposits, corporate and personal guarantees
- For retail lending – mortgage over residential properties, vehicles, gold, cash deposits and personal guarantees
- For Government and State Owned Enterprises – Government treasury 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 2022	Maximum exposure to credit risk LKR '000	Net exposure LKR '000
Cash and cash equivalents	66,842,171	11,577,656
Derivative financial instruments	14,882,584	14,882,584
Financial assets – at fair value through profit or loss	5,556,754	5,556,754
Loans and receivables to banks	7,689,150	7,689,150
Loans and receivables to other customers	1,783,106,693	486,927,320
Equity instruments at fair value through OCI	1,661,656	1,661,656
Debt instruments at fair value through OCI	10,378,370	10,378,370
Debt instruments measured at amortised cost	913,099,927	913,099,927
Total	2,803,217,305	1,451,773,417

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

Credit quality analysis

Credit indicator	2018 %	2019 %	2020 %	2021 %	2022 %
Non-performing ratio NPLs	2.50	3.31	3.25	3.21	4.40
Overdue ratio	11.88	8.64	4.70	5.10	12.87
Provision coverage	72.30	60.00	64.50	74.79	79.86

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. The Bank imposed individual as well as sector-wise maximum facility limits for State Owned Enterprises (SOE) with the objective of managing concentration risk in the SOE exposure.

An analysis of risk concentration by industry for the financial assets is given below.

As at 31 December 2022	Government	Commercial	Financial	Agricultural
Financial Assets				
Cash and cash equivalents	–	–	66,867,381	–
Balances with Central Bank of Sri Lanka	67,602,313	–	–	–
Derivative financial instruments	–	–	14,882,584	–
Financial assets – at fair value through profit and loss	5,314,829	73,242	–	21,262
Loans and receivables to banks	7,689,150	–	–	–
Loans and receivables to other customers	871,619,489	163,021,413	24,001,868	13,577,587
Debt instruments measured at amortised cost	919,683,509	–	–	–
Equity instruments at fair value through OCI	–	455,019	478,347	–
Debt instruments at fair value through OCI	3,634,648	2,601,855	3,595,532	–
Total	1,875,543,937	166,151,529	109,825,712	13,598,849

As at 31 December 2021	Government	Commercial	Financial	Agricultural
Financial Assets				
Cash and cash equivalents	–	–	57,546,454	–
Balances with Central Bank of Sri Lanka	56,717,820	–	–	–
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

	Industrial	Tourism	Housing and property development	Consumption	Services	Other	ECL	Total
	–	–	–	–	–	–	(25,210)	66,842,171
	–	–	–	–	–	–	–	67,602,313
	–	–	–	–	–	–	–	14,882,584
	103,754	–	–	9,504	34,163	–	–	5,556,754
	–	–	–	–	–	–	–	7,689,150
	55,874,413	31,011,042	426,841,415	282,618,630	19,292,395	27,930,370	(132,681,930)	1,783,106,693
	–	–	–	–	–	–	(6,583,582)	913,099,927
	–	–	–	–	728,291	–	–	1,661,657
	–	–	–	–	546,336	–	–	10,378,370
	55,978,167	31,011,042	426,841,415	282,628,134	20,601,184	27,930,370	(139,290,722)	2,870,819,619

	Industrial	Tourism	Housing and property development	Consumption	Services	Other	ECL	Total
	–	–	–	–	–	–	(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

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 manages liquidity risk, in accordance with regulatory guidelines and international best practices and 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, liquidity coverage ratio and cumulative mismatches.

Maturity profile of assets and liabilities (LKR '000) as at 31 December 2022

	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 2022 LKR '000	Total 2021 LKR '000
Assets							
Cash and cash equivalents	66,842,171	–	–	–	–	66,842,171	57,538,351
Balances with Central Bank	12,886,066	27,096,499	5,145,305	6,777,523	15,696,919	67,602,313	56,717,820
Derivative with banks	14,882,584	–	–	–	–	14,882,584	441,877
Financial assets – at fair value through profit or loss	5,556,754	–	–	–	–	5,556,754	1,558,850
Financial assets – at amortised cost							
Loans and advances to banks	–	7,689,150	–	–	–	7,689,150	10,131,952
Loans and advances to other customers	202,069,299	623,286,151	92,728,547	363,291,150	501,731,546	1,783,106,693	1,835,697,108
Debt instruments measured at amortised cost	39,833,324	179,078,680	228,380,284	435,148,679	30,658,960	913,099,927	587,320,182
Equity instruments at fair value through OCI	1,661,656	–	–	–	–	1,661,656	1,621,375
Debt instruments at fair value through OCI	954,932	1,471,951	1,701,468	3,250,020	3,000,000	10,378,371	9,399,272
Investments in subsidiaries	–	–	–	–	4,280,522	4,280,522	3,572,824
Property, plant and equipment	–	–	–	–	49,330,080	49,330,080	46,761,157
Intangible assets and goodwill	–	–	–	–	1,719,177	1,719,177	2,077,544
Other assets	42,010,594	2,361,123	524,855	545,224	437,259	45,879,055	34,802,224
Total assets 2022	386,697,380	840,983,554	328,480,459	809,012,596	606,854,462	2,972,028,453	–
Total assets 2021	407,981,474	531,168,289	179,367,944	190,798,549	1,338,324,279	–	2,647,640,536

	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 2022 LKR '000	Total 2021 LKR '000
Liabilities							
Due to banks	11,118,846	3,753,348	14,648,535	81,931,762	-	111,452,491	107,745,916
Derivative financial Instruments	1,888,478	-	-	-	-	1,888,478	1,761,220
Due to other customers	1,179,896,503	1,073,221,764	26,800,242	88,308,263	3,292,125	2,371,518,898	2,071,532,612
Other borrowings	182,117,867	3,269,392	-	-	6,140,314	191,527,573	241,419,125
Current tax liabilities	6,372,157	-	-	-	-	6,372,157	6,452,823
Net deferred tax liabilities	-	-	-	-	606,207	606,207	2,687,330
Other liabilities	58,403,730	44,285,431	1,672,808	2,403,081	-	106,765,050	31,102,734
Subordinated term debts	26,712	-	20,110,006	3,499,290	12,967,459	36,603,467	48,861,680
Stated capital/ assigned capital	-	-	-	-	12,201,998	12,201,998	12,201,998
Statutory reserve fund	-	-	-	-	10,070,131	10,070,131	9,210,528
Other reserve	-	-	-	-	38,397,830	38,397,830	35,902,287
Retained earnings	-	-	-	-	84,624,172	84,624,172	78,762,283
Total liabilities 2022	1,439,824,293	1,124,529,936	63,231,591	176,142,396	168,300,236	2,972,028,453	
Total liabilities 2021	1,692,255,514	684,477,810	45,376,491	23,280,406	202,250,315		2,647,640,536
NET 2022	(1,053,126,913)	(283,546,382)	265,248,868	632,870,200	438,554,227	-	-
NET 2021	(1,284,274,040)	(153,309,521)	133,991,453	167,518,143	1,136,073,964	-	-
Total equity and liabilities 2022	386,697,380	840,983,554	328,480,459	809,012,596	606,854,462	2,972,028,453	-
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

Maturity profile of the undiscounted cash flows of financial liabilities as at 31 December 2022

Financial liabilities	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	6,707,600	4,440,786	5,678,409	146,792,379	–	163,619,175
Derivative financial instruments	–	104,362,796	2,989,231	–	–	107,352,027
Due to other customers	755,708,257	490,503,273	1,153,960,050	184,787,506	4,148,110	2,589,107,197
Other borrowings	–	182,676,375	3,649,076	–	6,140,314	192,465,764
Subordinated term debts	–	499,212	3,627,293	34,485,490	17,097,100	55,709,095
Total undiscounted financial liabilities	762,415,857	782,482,442	1,169,904,058	366,065,376	27,385,524	3,108,253,257

Maturity profile of the undiscounted cash flows of financial liabilities as at 31 December 2021

Financial liabilities	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	118,061,920
Derivative financial instruments	–	64,832,341	25,347,644	12,508,890	5,957,093	108,645,968
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	903,462,767	704,764,461	98,290,333	83,607,130	2,667,362,617

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 Bank's market risk exposures are classified into trading and banking book and are managed separately. Sensitivity and scenario analysis of portfolios are carried out together with mark-to-market valuations and duration analysis that reflects the portfolio sensitivity to the market volatility. 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 one 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 it's limits at least daily by the Treasury Middle office, which is attached 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.

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. CBSL regulatory limits and board approved limits are in place on currency positions and are monitored on a daily basis. Hedging strategies are used to ensure positions are maintained within established limits.

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 and create legal or regulatory implications, or lead to financial losses. Operational Risks cannot be fully eliminated. However Bank objective is to manage operational risk in order to avoid financial losses and damage to the Bank's reputation with overall cost effectiveness, innovation and 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 Department 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. Also the Internal Capital Adequacy Assessment Process (ICAAP) covers capital planning over the next 5 years.

Recovery Plans (RCP)

As per CBSL Direction No. 13 of 2021 the Bank implement Recovery Plans (RCP) commencing from 2022. The scope of the Recovery Plans shall identify the full range of recovery options available to a licensed bank to deal with shocks to capital, liquidity and all other aspects that may arise from bank specific stresses, market wide stresses or a combination of both.

The Recovery Plans include and properly addressed the nature, scales, complexity and interconnectedness of,

Critical functions and critical shares services

- Recovery triggers and indicators
- Recovery options
- Governance framework within the Bank
- Implementation strategies

Bank has appointed DGM Risk Management to oversee RCP process. Further RCP is a dynamic process and be updated annually and as and when required.

RCP shall be approved by Board of Directors with the recommendation of the BIRMC and RCP assign clear responsibilities of key management personnel for formulating, maintaining, reviewing, executing and activating the required functionalities.

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 9.5% with core capital (Tier 1) and a minimum overall CAR of 13.5% as at 31.12.2022.

The details of the computation of the capital and the ratios as at 31 December 2022 and 31 December 2021 are given below for the Bank and Group:

CAPITAL ADEQUACY – BANK

Computation of risk weighted assets

	Balance		Risk weight	Risk weighted balance	
As at 31 December	2022 LKR '000	2021 LKR '000	%	2022 LKR '000	2021 LKR '000
Assets					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	1,557,190,034	1,354,465,725	0-20	104,078,413	35,604,738
Claims on foreign sovereigns and their central banks	–	–	0-150	–	–
Claims on Public Sector Entities (PSEs)	112,025,739	100,589,395	20-150	34,966,728	53,020,647
Claims on official entities and Multilateral Development Banks (MDBs)	–	–	0-150	–	–
Claims on banks	11,566,209	3,190,653	20-150	4,949,674	717,677
Claims on financial institutions	6,701,868	5,123,471	20-150	3,604,999	2,941,131
Claims on corporates	176,721,225	157,967,132	20-150	176,709,703	150,152,558
Retail claims	487,235,137	510,921,541	75-100	380,310,299	399,782,395
Claims secured by gold	183,955,880	194,769,226	20-100	2,922	1,387,067
Claims secured by residential property	59,509,996	61,873,841	50-100	20,828,499	21,655,844
Claims secured by commercial real estate	–	–	100	–	–
Non-Performing Assets (NPAs)	39,155,305	28,758,273	50-150	51,930,634	38,577,961
High risk categories	1,147,268	1,076,316	150-250	2,868,170	2,690,789
Cash items	57,119,603	55,766,424	0-20	365,976	283,745
Property, plant and equipment	40,404,636	46,761,161	100	40,404,636	46,761,161
Other assets	33,643,211	15,025,979	100	33,643,211	15,025,979
Total	2,766,376,111	2,536,289,138		854,663,864	768,601,693

Above risk weighted assets includes the credit equivalent of off balance sheet exposures illustrated below.

Off balance sheet exposures

	Balance		Credit conversion factor	Credit Equivalent	
	2022 LKR '000	2021 LKR '000	%	2022 LKR '000	2021 LKR '000
Instruments					
Direct credit substitutes	18,599,654	24,129,532	100	18,599,654	24,129,532
Transaction-related contingencies	40,145,861	37,801,675	50	20,072,930	18,900,837
Short-term self-liquidating trade-related contingencies	14,063,936	144,962,298	20	2,812,787	28,992,460
Sale and repurchase agreements and assets sale with recourse where the credit risk remains with the Bank	-	-	100	-	-
Obligations under an on-going 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	56,307,598	62,815,181	20	11,261,520	12,563,036
Other commitments with an original maturity of over one year	-	-	50	-	-
Foreign exchange contracts	152,222,636	111,769,016	0-5	3,044,453	2,235,380
Interest rate contracts	-	-	0-3	-	-
Total	281,339,685	381,477,702		55,791,343	86,821,245

Computation of capital

	2022 LKR '000	2021 LKR '000
Common equity Tier 1 (CET1) capital	111,298,172	104,747,717
Total Tier 1 capital	116,298,172	109,747,717
Total capital	159,532,587	155,798,954
Computation of ratios		
Total risk weighted assets for credit risk	854,663,864	768,601,693
Total risk weighted assets for market risk	22,038,936	9,947,942
Total risk weighted assets for operational risk	101,773,095	95,120,162
Total risk weighted assets	978,475,894	873,669,797
Common equity Tier 1 (CET1) capital ratio (minimum requirement 8.0% – 2022 7.0% – 2021)	11.37	11.99
Total Tier 1 capital (Tier 1) (minimum requirement 9.5% – 2022, 8.5% – 2021)	11.89	12.56
Total capital ratio (minimum requirement 13.5% – 2022, 12.5% – 2021)	16.30	17.83

CAPITAL ADEQUACY – GROUP

Computation of risk weighted assets

	Balance		Risk weight	Risk Weighted Balance	
As at 31 December	2022 LKR '000	2021 LKR '000	%	2022 LKR '000	2021 LKR '000
Assets					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	1,570,101,439	1,370,148,563	0-20	104,078,413	35,604,738
Claims on foreign sovereigns and their central banks	–	–	0–150	–	–
Claims on Public Sector Entities (PSEs)	112,025,739	100,311,723	20-150	34,966,728	52,742,976
Claims on official entities and Multilateral Development Banks (MDBs)	–	–	0-150	–	–
Claims on banks	14,767,304	3,190,653	20-150	7,318,902	717,677
Claims on financial institutions	6,701,868	8,689,199	20-150	3,604,999	6,506,859
Claims on corporates	176,721,225	160,698,092	20-150	176,709,703	152,883,518
Retail claims	618,205,712	663,192,297	75-100	511,280,874	552,053,151
Claims secured by gold	183,955,880	194,769,226	20-100	2,922	1,387,067
Claims secured by residential property	59,509,996	61,873,841	50-100	20,828,499	21,655,844
Claims secured by commercial real estate	–	–	100	–	–
Non-Performing Assets (NPAs)	40,849,720	31,479,469	50-150	53,625,050	41,299,157
High risk categories	1,487,552	–	150-250	3,718,881	0
Cash items	58,181,917	56,824,902	0-20	365,976	283,745
Property, plant and equipment	50,854,687	56,432,297	100	50,854,687	56,432,297
Other assets	41,682,244	16,266,619	100	41,682,244	16,266,619
Total	2,935,045,283	2,723,876,883		1,009,037,876	937,833,649

Above risk weighted assets includes the credit equivalent of off balance sheet exposures illustrated below.

Off balance sheet exposures

	Balance		Credit conversion factor	Credit Equivalent	
Off balance Sheet Exposures	2022 LKR '000	2021 LKR '000	%	2022 LKR '000	2021 LKR '000
Instruments					
Direct Credit Substitutes	18,599,654	24,129,532	100	18,599,654	24,129,532
Transaction-related contingencies	40,145,861	37,801,675	50	20,072,930	18,900,837
Short-term self-liquidating trade-related Contingencies	14,063,936	144,962,298	20	2,812,787	28,992,460
Sale and repurchase agreements and assets sale with recourse where the credit risk remains with the bank	-	-	100	-	-
Obligations under an on-going 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 1 year	56,307,598	76,469,981	20	11,261,520	15,293,996
Other commitments with an original maturity of over one year	-	-	50	-	-
Foreign exchange contracts	152,222,636	111,769,016	0-5	3,044,453	2,235,380
Interest rate contracts	-	-	0-3	-	-
Total	281,339,685	395,132,502		55,791,343	89,552,205

Computation of capital

	2022 LKR '000	2021 LKR '000
Common equity Tier 1 (CET1) capital	148,454,894	138,667,285
Total Tier 1 capital	153,454,894	143,667,285
Total capital	198,618,984	191,833,922
Computation of ratios		
Total risk weighted assets for credit risk	1,009,037,876	937,833,649
Total risk weighted assets for market risk	24,425,006	13,920,731
Total risk weighted assets for operational risk	123,198,293	119,443,032
Total risk weighted assets	1,156,661,175	1,071,197,412
Common equity Tier 1 (CET1) capital ratio (minimum requirement 8.0% - 2022 7.0% - 2021)	12.83	12.95
Total Tier 1 capital (Tier 1) (minimum requirement 9.5% - 2022, 8.5% - 2021)	13.27	13.41
Total capital ratio (Minimum requirement 13.5% - 2022, 12.5% - 2021)	17.17	17.91

325 SUPPLEMENTARY REPORTS

326 / Income Statement USD
327 / Statement of Financial Position USD
328 / Ten Year Summary – Bank
329 / Ten Year Summary – Group
330 / Basel III – Market Discipline Disclosure Requirement under Pillar III
326 / External Assurance on Sustainability Report
348 / GRI Content Index
353 / Senior Managers
356 / Branch Managers
364 / Glossary of Financial/Banking Terms
368 / Corporate Information

INCOME STATEMENT USD

For the year ended 31 December	Bank			Group		
	2022 USD '000	2021 USD '000	Change %	2022 USD '000	2021 USD '000	Change %
Gross income	975,368	1,032,378	-5.5	1,068,134	1,179,552	-9.4
Interest income	879,006	982,964	-10.6	959,418	1,107,659	-13.4
Interest expenses	(672,158)	(572,200)	17.5	(710,858)	(625,094)	13.7
Net interest income	206,848	410,764	-49.6	248,560	482,564	-48.5
Fee and commission income	44,772	41,186	8.7	47,000	48,046	-2.2
Fee and commission expense	(2,263)	(2,978)	-24.0	(2,263)	(2,978)	-24.0
Net fee and commission income	42,509	38,209	11.3	44,737	45,068	-0.7
Net gain/(loss) from trading	46,488	(6,700)	-793.8	46,471	(6,015)	-872.5
Other operating income (net)	5,102	14,927	-65.8	15,246	29,863	-48.9
Total operating income	300,947	457,200	-34.2	355,014	551,480	-35.6
Impairment charge	(91,048)	(72,094)	26.3	(93,796)	(72,157)	30.0
Net operating income	209,899	385,106	-45.5	261,218	479,323	-45.5
Personnel expenses	(72,635)	(113,434)	-36.0	(87,920)	(138,201)	-36.4
Other expenses	(56,625)	(86,125)	-34.3	(73,141)	(113,430)	-35.5
Operating profit before Value Added Tax (VAT) on financial services	80,639	185,547	-56.5	100,157	227,692	-56.0
Value Added Tax (VAT) on Financial Services	(22,377)	(34,181)	-34.5	(27,282)	(42,210)	-35.4
Operating profit after Value Added Tax (VAT) on financial services	58,262	151,365	-61.5	72,876	185,481	-60.7
Share of profits/(loss) of associates (net of tax)	–	–		–	54	-100.0
Profit before tax	58,262	151,365	-61.5	72,876	185,536	-60.7
Income tax expenses	(11,321)	(33,208)	-65.9	(16,833)	(45,622)	-63.1
Profit for the year	46,941	118,158	-60.3	56,042	139,914	-59.9
Profit attributable to:						
Equity holders of the Bank	46,941	118,158	-60.3	53,439	131,263	-59.3
Non-controlling interests	–	–		2,603	8,651	-69.9
	46,941	118,158	-60.3	56,042	139,914	-59.9

Exchange Rate: 1 USD was LKR 366.25 as at 31 December 2022 (LKR 200.75 as at 31 December 2021).

The Income Statements and Statement of Financial Position given on pages 209 and 211 are solely for the convenience of shareholders, investors and other users of Financial Statements.

STATEMENT OF FINANCIAL POSITION USD

	Bank			Group		
For the year ended 31 December	2022 USD '000	2021 USD '000	Change %	2022 USD '000	2021 USD '000	Change %
Assets						
Cash and cash equivalents	182,504	286,617	-36.3	185,876	293,085	-36.6
Balances with Central Bank of Sri Lanka	184,580	282,530	-34.7	184,580	282,530	-34.7
Placements with banks	–	–	–	8,269	16,567	-50.1
Derivative financial instruments	40,635	2,201	1746.1	40,635	2,201	1746.1
Financial assets – at fair value through profit or loss	15,172	7,765	95.4	16,153	12,720	27.0
Financial assets – at amortised cost						
Loans and advances to banks	20,994	50,470	-58.4	20,994	66,740	-68.5
Loans and advances to other customers	4,868,551	9,144,195	-46.8	5,230,776	9,916,259	-47.3
Debt instruments measured at amortised cost	2,493,106	2,925,630	-14.8	2,536,206	2,989,189	-15.2
Financial assets – at fair value through other comprehensive income (OCI)						
Equity instruments at fair value through OCI	4,537	8,077	-43.8	5,036	9,410	-46.5
Debt instruments at fair value through OCI	28,337	46,821	-39.5	31,205	52,786	-40.9
Investments in subsidiaries	11,687	17,797	-34.3	–	–	–
Property, plant and equipment and right-of-use assets	134,690	232,932	-42.2	163,222	281,107	-41.9
Intangible assets and goodwill	4,694	10,349	-54.6	5,077	11,221	-54.8
Other assets	125,267	173,361	-27.7	126,604	176,323	-28.2
Total assets	8,114,753	13,188,745	-38.5	8,554,634	14,110,137	-39.4
Liabilities						
Due to banks	304,307	536,717	-43.3	335,009	609,703	-45.1
Derivative financial instruments	5,156	8,773	-41.2	5,156	8,773	-41.2
Due to other customers	6,475,137	10,318,967	-37.3	6,689,636	10,802,863	-38.1
Other borrowings	522,942	1,202,586	-56.5	522,942	1,202,586	-56.5
Current tax liabilities	17,398	32,144	-45.9	22,654	42,402	-46.6
Net deferred tax liabilities	1,655	13,386	-	1,558	15,914	-90.2
Other liabilities	291,509	154,933	88.2	316,619	216,446	46.3
Subordinated term debts	99,941	243,396	-58.9	144,113	326,579	-55.9
Total liabilities	7,718,046	12,510,901	-38.3	8,037,687	13,225,264	-39.2
Equity						
Stated capital/assigned capital	33,316	60,782	-45.2	33,316	60,782	-45.2
Statutory reserve fund	27,495	45,881	-40.1	27,495	45,881	-40.1
Other reserves	104,840	178,841	-41.4	113,181	190,088	-40.5
Retained earnings	231,056	392,340	-41.1	303,603	521,820	-41.8
Total shareholders' equity	396,707	677,844	-41.5	477,595	818,570	-41.7
Non-controlling interests	–	–		39,352	66,303	-40.6
Total equity	396,707	677,844	-41.5	516,947	884,873	-41.6
Total equity and liabilities	8,114,753	13,188,745	-38.5	8,554,634	14,110,137	-39.4
Contingent liabilities and commitments	1,012,010	2,135,847	-52.6	1,024,678	2,210,920	-53.7

Exchange Rate: 1 USD was LKR 366.25 as at 31 December 2022 (LKR 200.75 as at 31 December 2021)

The Income Statements and Statement of Financial Position given on pages 209 and 211 are solely for the convenience of shareholders, investors and other users of Financial Statements.

TEN YEAR SUMMARY – BANK

(LKR Mn.)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Assets										
Cash and short-term funds	59,143	80,940	74,112	127,058	134,647	109,496	89,562	85,658	114,256	134,444
Investments	226,075	290,486	304,519	250,240	269,691	299,160	405,688	443,955	613,604	942,666
Loans and receivables (Net)	619,830	627,209	768,515	890,528	1,012,643	1,265,667	1,310,150	1,635,579	1,835,697	1,783,107
Property, plant, equipment and right-of-use assets	14,706	14,947	16,304	17,224	25,048	26,260	34,310	38,406	46,761	49,330
Other assets	10,832	13,186	13,146	16,999	25,071	34,120	33,697	26,521	37,322	62,481
Total assets	930,585	1,026,769	1,176,595	1,302,048	1,467,099	1,734,703	1,873,406	2,230,119	2,647,641	2,972,028
Liabilities										
Customer deposits	762,249	793,342	899,238	1,077,812	1,244,003	1,422,961	1,491,386	1,835,099	2,071,533	2,371,519
Borrowing from banks and others	102,148	157,198	192,083	134,109	105,057	173,607	224,809	200,852	349,165	302,980
Other liabilities	14,619	17,727	20,747	17,947	28,051	34,391	39,532	48,626	42,004	115,632
Subordinated term debts	15,033	15,033	15,033	12,532	12,532	12,534	22,714	43,558	48,862	36,603
Total liabilities	894,048	983,299	1,127,100	1,242,400	1,389,642	1,643,493	1,778,442	2,128,135	2,511,563	2,826,734
Total equity	36,537	43,470	49,495	59,649	77,457	91,210	94,964	101,984	136,077	145,294
Total equity and liabilities	930,585	1,026,769	1,176,595	1,302,048	1,467,099	1,734,703	1,873,406	2,230,119	2,647,641	2,972,028
Contingent liabilities and commitments	197,119	182,573	181,533	226,430	303,344	402,762	363,926	489,939	428,771	370,649
Operating results										
Gross income	120,456	96,377	103,649	122,114	160,835	181,284	199,729	190,982	207,250	357,229
Total operating income	46,530	41,894	54,743	55,060	61,856	69,886	73,795	71,715	91,783	110,222
Total operating expenses (Including VAT)	22,509	26,093	31,483	32,999	34,594	42,855	45,640	38,922	46,923	55,537
Profit before tax	10,304	17,231	19,520	20,814	25,913	24,406	19,666	21,227	30,387	21,338
Income tax	2,816	3,012	6,922	5,819	7,663	7,312	6,741	7,052	6,666	4,146
Profit after tax	7,488	14,219	12,598	14,995	18,250	17,095	12,926	14,175	23,720	17,192
Performance indicators										
Number of employees (permanent)	7,409	8,156	8,368	8,249	8,454	8,093	7,836	7,692	7,568	7,377
Per employee (LKR '000)										
Deposits	102,881	97,271	107,462	130,660	147,150	175,826	190,325	238,572	273,723	321,475
Loans and receivables (Net)	83,659	76,902	91,840	107,956	119,783	156,390	167,196	212,634	242,560	241,712
Gross earnings	16,258	11,817	12,386	14,804	19,025	22,400	25,489	24,829	27,385	48,425
Profit after tax	1,011	1,743	1,505	1,818	2,159	2,112	1,650	1,843	3,134	2,330
Per share (LKR)										
Profit after tax	7,488	14,219	12,598	14,995	18,250	17,095	12,926	14,175	23,720	17,192
Total assets	930,585	1,026,769	1,176,595	1,302,048	1,467,099	1,734,703	1,873,406	2,230,119	2,647,641	2,972,028
Equity	36,537	43,470	49,495	59,649	77,457	91,210	94,964	101,984	136,077	145,294
Return on assets (%) (before tax)	1.1	1.8	1.8	1.7	1.9	1.5	1.1	1.0	1.2	0.8
Return on equity (%)	22.8	35.5	27.1	27.5	26.6	20.3	13.9	14.4	19.9	12.2
Cost/income ratio (%)	48.4	62.3	57.5	59.9	55.9	61.3	61.8	54.3	51.1	50.4
Capital adequacy ratio (CAR) (%)	15.0	14.3	12.6	12.1	13.5	14.5	14.7	15.5	17.8	16.3
Non-performing loan (NPL) ratio (gross) (%)	5.3	3.2	2.4	1.9	1.9	2.5	3.3	3.2	3.2	–
Impaired (Stage 3) ratio (%)								3.5	4.0	12.8
Impairment (Stage 3) to Stage 3 loans ratio (%)								54.7	50.2	29.9

TEN YEAR SUMMARY – GROUP

(LKR Mn.)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Assets										
Cash and short-term funds	61,174	83,003	76,840	129,458	135,364	110,451	90,453	87,096	115,555	135,679
Investments	229,280	300,366	311,141	258,049	280,357	311,581	419,190	461,373	631,843	958,793
Loans and receivables (Net)	710,074	722,099	869,781	1,013,921	1,143,767	1,415,928	1,460,498	1,776,231	1,990,689	1,915,772
Property, plant, equipment and right-of-use assets	18,184	19,364	22,696	23,441	33,758	35,434	43,744	48,102	56,432	59,780
Other assets	12,760	14,425	14,279	19,528	25,833	35,147	35,889	27,766	38,091	63,111
Total assets	1,031,473	1,139,258	1,294,737	1,444,398	1,619,079	1,908,540	2,049,775	2,400,567	2,832,610	3,133,135
Liabilities										
Customer deposits	789,225	829,019	932,906	1,119,753	1,305,626	1,495,326	1,588,903	1,935,194	2,168,675	2,450,079
Borrowings	140,865	193,825	225,795	172,419	134,263	207,330	235,724	208,802	363,817	314,225
Other liabilities	23,153	27,469	32,328	30,509	40,299	49,285	54,619	60,592	56,920	126,718
Subordinated term debts	23,141	24,883	30,907	36,526	32,448	33,085	40,513	56,868	65,560	52,782
Total liabilities	976,384	1,075,196	1,221,937	1,359,207	1,512,635	1,785,027	1,919,759	2,261,457	2,654,972	2,943,803
Total equity	55,088	64,062	72,801	85,191	106,443	123,513	130,016	139,111	177,638	189,332
Total equity and liabilities	1,031,473	1,139,258	1,294,737	1,444,398	1,619,079	1,908,540	2,049,775	2,400,567	2,832,610	3,133,135
Contingent liabilities and commitments	197,376	182,597	181,545	226,442	304,102	409,575	370,986	497,690	443,842	375,288
Operating results										
Gross income	139,957	118,641	123,831	144,750	188,854	214,664	238,219	223,898	236,795	391,204
Total operating income	55,576	54,308	67,635	68,429	77,518	89,843	96,475	90,836	110,710	130,024
Total operating expenses (Including VAT)	27,264	32,779	38,346	41,633	44,600	54,554	59,135	48,623	58,989	68,980
Profit before tax	13,412	21,628	24,121	25,433	29,868	31,162	25,652	24,648	37,246	26,691
Income tax	4,248	4,674	9,053	7,477	9,358	9,669	9,474	8,557	9,159	6,165
Profit after tax	9,164	16,953	15,068	17,956	20,511	21,492	16,178	16,090	28,088	20,525
Performance indicators										
Number of employees	9,384	10,331	10,682	10,471	11,396	11,394	11,237	11,051	10,969	10,454
Per employee (LKR '000)										
Deposits	84,103	80,246	87,334	106,939	114,569	131,238	141,399	175,115	197,709	234,368
Loans and receivables	75,669	69,896	81,425	96,831	100,366	124,270	129,972	160,730	181,483	183,257
Gross earnings	14,914	11,484	11,592	13,824	16,572	18,840	21,199	20,260	21,588	37,421
Profit after tax	977	1,641	1,411	1,715	1,800	1,886	1,440	1,456	2,561	1,963
Return on assets (%) (before tax)	1.3	2.0	2.0	1.9	1.9	1.8	1.3	1.1	1.4	0.9
Return on equity (%)	18.2	28.5	22.0	22.7	21.4	18.7	12.8	12.0	17.7	11.2
Cost/income ratio (%)	49.1	60.4	56.7	60.8	57.5	60.7	61.3	53.5	53.3	53.1
Capital adequacy ratio (CAR) (%)	15.9	14.9	13.8	13.0	13.7	14.5	14.9	15.6	17.9	17.2
Non-performing loan (NPL) ratio (gross) (%)	4.9	3.2	2.4	1.9	2.0	2.7	3.7	3.9	3.6	–
Impaired (Stage 3) ratio (%)								4.2	4.7	12.6
Impairment (Stage 3) to Stage 3 loans ratio (%)								50.8	46.9	30.5

BASEL III – MARKET DISCIPLINE 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 banks ability to withstand in an unexpected loss scenarios during various activities carried out by the Bank.

Basel committee on Bank Supervision (BCBS) has implemented set of stringent measures of capital, liquidity and funding reforms. Accordingly Basel 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 No. 1 of 2016 on capital requirement under Basel 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.

Accordingly minimum capital requirement of the Bank are as follows:

Minimum requirement	%
Common equity Tier 1 capital ratio (CETI)	8.00
Total Tier 1 capital ratio (CET I + AT I)	9.50
Total capital ratio	13.50

Common Equity Tier 1 (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 1 (AT 1) capital includes capital instruments other than the instruments included in CET I capital.

Total capital is comprised of Tier 1 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 allowed impairment provisions.

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 ICAAP (Internal Capital Adequacy Assessment Process) 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 No. 1 of 2016 are set out below:

TEMPLATE 1: KEY REGULATORY RATIO – CAPITAL AND LIQUIDITY

	Bank		Group	
As at 31 December	**2022**	**2021**	**2022**	**2021**
Regulatory capital (LKR '000)				
Common equity Tier 1 capital	111,298,172	104,747,717	148,454,894	138,667,285
Total Tier 1 capital	116,298,172	109,747,717	153,454,894	143,667,285
Total capital	159,532,587	155,798,954	198,618,984	191,833,922
Regulatory capital ratio (%)				
Common equity Tier 1 capital ratio (Minimum requirement – 2022 – 8.00%, 2021 – 7.00%)	11.37	11.99	12.83	12.95
Total Tier 1 capital (Minimum requirement – 2022, 9.50%, 2021 – 8.50%)	11.89	12.56	13.27	13.41
Total capital (Minimum requirement – 2022 – 13.50%, 2021 – 12.50%)	16.30	17.83	17.17	17.91
Regulatory liquidity				
Statutory liquid assets – Bank				
Domestic Banking Unit (LKR '000)	540,470,751	502,575,831	NA	NA
Off-Shore Banking Unit (USD '000)	70,182	239,417	NA	NA
Statutory liquid assets – (Minimum requirement 20%)				
Domestic Banking Unit (%)	21.37	23.52	NA	NA
Off-Shore Banking Unit (%)	20.05	25.94	NA	NA
Liquidity coverage ratio (%) Rupee (Minimum requirement 2022 – 90%, 2021 – 100%)	213.00	155.83	NA	NA
Liquidity coverage ratio (%) all currency (Minimum requirement 2022 – 90%, 2021 – 100%)	119.47	105.71	NA	NA

TEMPLATE 2: KEY REGULATORY RATIO – CAPITAL AND LIQUIDITY

	Bank		Group	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Common equity Tier 1 (CET I) capital after adjustments	111,298,172	104,747,717	148,454,894	138,667,285
Common equity Tier 1 (CET I) capital	121,208,499	114,565,325	155,377,215	146,338,443
Equity/Assigned capital	12,201,998	12,201,998	12,201,998	12,201,998
Reserve fund	10,070,131	9,210,528	9,972,747	9,210,528
Public retained earning/(accumulated retained losses)	84,624,172	78,762,283	113,457,633	104,755,262
Publish accumulated other comprehensive income (OCI)	170,825	249,143	66,665	210,196
General and other disclosed reserves	14,141,373	14,141,373	14,141,373	14,141,373
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	–	–	5,536,799	5,819,087
Total adjustments to CETI capital	9,910,326	9,817,608	6,922,321	7,671,158
Goodwill (Net)	–	–	–	–
Deferred tax asset (Net)	–	–	–	–
Intangible assets (Net)	1,719,177	2,077,544	1,859,475	2,252,557
Other (Investment in the capital of subsidiaries and other financial institution)	3,428,646	2,883,845	300,343	562,382
Defined benefit asset	4,762,503	4,856,219	4,762,503	4,856,219
Additional Tier 1 (AT I) capital after adjustments	5,000,000	5,000,000	5,000,000	5,000,000
Additional Tier 1 (AT I) capital	5,000,000	5,000,000	5,000,000	5,000,000
Qualifying additional Tier 1 capital instruments	5,000,000	5,000,000	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 2 capital after adjustments	43,234,415	46,051,238	45,164,090	48,166,637
Tier 2 capital	43,234,415	46,051,238	45,164,090	48,166,637
Qualifying Tier 2 capital instruments	23,176,650	27,069,250	23,176,650	27,069,250
Revaluation gains	9,374,467	9,374,467	9,374,467	9,374,467
Loan loss provisions	10,683,298	9,607,521	12,612,973	11,722,921
Instrument issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by third parties				
Total adjustment to Tier 2	–	–	–	–
Investment in own shares	–	–	–	–
Other (specify)	–	–	–	–
CET capital	111,298,172	104,747,717	148,454,894	138,667,285
Total Tier 1 capital	116,298,172	109,747,717	153,454,894	143,667,285
Total capital	159,532,587	155,798,954	198,618,984	191,833,922
Total Risk-Weighted Assets (RWA)	978,475,894	873,669,797	1,156,661,175	1,071,197,412
RWA for credit risk	854,663,864	768,601,693	1,009,037,876	937,833,649
RWA for market risk	22,038,936	9,947,942	24,425,006	13,920,731
RWA for operational risk	101,773,095	95,120,162	123,198,293	119,443,032
CET I capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIB) (%)	11.37	11.99	12.83	12.95
of which: Capital Conservation Buffer (%)	2.50	1.50	2.50	1.50
of which: Countercyclical Buffer (%)	–	–	–	–
of which: Capital surcharge on D-SIBs (%)	1.00	1.00	1.00	1.00
Total Tier 1 capital ratio (%)	11.89	12.56	13.27	13.41
Total capital ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	16.30	17.83	17.17	17.91
of which: Capital Conservation Buffer (%)	2.50	1.5	2.50	1.5
of which: Countercyclical Buffer (%)	–	–	–	–
of which: Capital surcharge on D-SIBs (%)	1.00	1.00	1.00	1.00

TEMPLATE 03: COMPUTATION OF LEVERAGE RATIO

	Bank		Group	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Tier 1 capital	116,298,172	109,747,717	153,454,894	143,667,285
Total exposures	3,037,485,650	2,772,318,458	3,201,579,781	2,962,165,320
On balance sheet items (Excluding derivatives and securities financing transactions, but including collateral)	2,671,798,878	2,434,881,051	2,835,893,009	2,621,996,953
Derivative exposures	24,523,267	3,466,934	24,523,267	3,466,934
Securities financing transaction exposures	288,416,615	249,384,608	288,416,615	249,384,608
Other off-balance sheet exposures	52,746,891	84,585,865	52,746,891	87,316,825
Basel III leverage ratio (%) (Tier 1/total exposure)	3.83	3.96	4.79	4.85

BASEL III DISCLOSURE REQUIREMENT

TEMPLATE 4: COMPUTATION OF LIQUIDITY COVERAGE RATIO

As at 31 December	2022		2021	
	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)	505,483,388	502,751,126	372,286,684	367,540,924
Level 1 assets	497,480,281	497,480,281	362,795,163	362,795,163
Level 2A assets	3,626,548	3,082,566	–	–
Level 2B assets	4,376,559	2,188,280	9,491,521	4,745,761
Total cash outflows	2,705,630,537	583,061,521	2,449,124,055	518,681,448
Deposits	1,728,355,981	172,835,598	1,465,808,681	146,580,868
Unsecured wholesale funding	655,891,101	307,819,682	632,974,981	314,332,823
Secured funding transactions	5,054,298	–	17,051,850	–
Undrawn portion of committed (Irrevocable) facilities and other contingent funding obligations	234,679,545	20,756,629	306,123,236	30,602,450
Additional requirements	81,649,612	81,649,612	27,165,307	27,165,307
Total cash inflows	213,285,842	162,260,205	198,896,001	171,005,309
Maturing secured lending transactions backed by collateral	27,071,732	27,071,732	18,124,786	18,124,786
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 days	92,324,469	53,538,861	149,501,619	126,208,496
Operational deposits	12,240,029	–	4,597,569	–
Other cash inflows	81,649,612	81,649,612	26,672,027	26,672,027
Liquidity coverage ratio (%) (Stock of high quality liquid assets/Total net cash outflows over the next calendar days)* 100	–	119.47	–	105.71

TEMPLATE 5: MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

	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 1 Debenture 1 2021	Additional Tier 1 Debenture 2 2021
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	People's Bank	People's Bank	People's Bank
Unique identifier (e.g. ISIN or Bloomberg identifier for private placement)	A	B	A	B	1	2
Original date of issuance	8 November 2019	8 November 2019	27 July 2020	27 July 2020	29 March 2021	3 August 2021
Par value of instrument (LKR)	6,563,000,000	3,437,000,000	12,900,000,000	7,100,000,000	3,500,000,000	1,500,000,000
Original maturity date, if applicable	8 November 2024	8 November 2027	27 July 2025	27 July 2028	N/A	N/A
Amount recognised in regulatory capital (in LKR '000 as at the reporting date)	3,609,650,000	3,437,000,000	9,030,000,000	7,100,000,000	3,500,000,000	1,500,000,000
Accounting classification (equity/liability)	Liability	Liability	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	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A
Coupons/dividends						
Fixed or floating dividend/coupon	Fixed rate	Fixed rate	Fixed rate	Fixed rate	Fixed rate	Fixed rate
Coupon rate and any related index (%)	12.00	12.25	9.50	10.25	9.50	9.50
Non-cumulative or cumulative	N/A	N/A	N/A	N/A	N/A	N/A
Convertible or Non-convertible						
If convertible, conversion trigger (s)	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, mandatory or optional	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A

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 2022, close 42.6% 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, 2021 and 2022

During 2017 and 2018 2019, 2020, 2021 and 2022 – 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 21 July 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 recognise close to LKR 3.6 Bn. in Tier 2 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.

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

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 2 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 2 benefit of close to LKR 2.3 Bn. The next detailed revaluation is set to be carried out on 1 July 2023.
- On 27 July 2020 – the Bank issued LKR 20.0 Bn. in Basel III, Tier 2 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 3 August 2021 – as originally planned – the Bank issued LKR 3.5 Bn. and LKR 1.5 Bn. Basel III, Additional Tier 1 compliant debentures.
- The Bank further reduced its dividend payout ratio to 9.2 % in 2021.
- Interim profit certifications were carried out for 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

- The Bank further reduced its dividend payout ratio to 3.9% in 2022.
- Interim Profit Certifications were carried out for Six months ended 30 June 2022 in view of managing regulatory capital pressure.

As a result of all the above, during 2022 – 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.

2023 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 2023.
- Issue Additional Tier 1 and Tier 2 Basel III compliant instruments
- As originally planned carry-out revaluation of all its land and buildings to bolster Tier 2 capital.
- Continue to maintain its lower dividend/levy payout policy during the year.
- Carry-out an interim profit certification in view of avoiding regulatory capital shortfalls.

TEMPLATE 07: CREDIT RISK UNDER STANDARDISED 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 LKR '000**	**Exposures off-balance sheet LKR '000**	**Total LKR '000**	**Exposures on-balance sheet LKR '000**	**Exposures off-balance sheet LKR '000**	**Total LKR '000**	**Risk-weighted assets LKR '000**	**RWA density (%)**
Total risk-weighted amount for credit risk	2,924,017,324	312,280,311	3,236,297,635	2,710,584,767	55,791,343	2,766,376,111	854,663,864	31
Claims on Central Government and Central Bank of Sri Lanka	1,557,154,500	12,520,987	1,569,675,487	1,557,154,500	35,534	1,557,190,034	104,078,413	7
Claims on public sector entities (PSEs)	287,952,805	26,176,785	314,129,591	110,058,417	1,967,321	112,025,739	34,966,728	31
Claims on banks exposures	11,566,209	–	11,566,209	11,566,209	–	11,566,209	4,949,674	43
Claims on financial institutions	6,701,868	–	6,701,868	6,701,868	–	6,701,868	3,604,999	54
Claims on corporates	132,329,105	227,145,432	359,474,537	132,220,158	44,501,067	176,721,225	176,709,703	100
Retail claims	513,376,937	46,437,106	559,814,043	477,947,715	9,287,421	487,235,137	380,310,299	78
Claims secured by gold	183,955,880	–	183,955,880	183,955,880	–	183,955,880	2,922	–
Claims secured by residential property	59,509,996	–	59,509,996	59,509,996	–	59,509,996	20,828,499	35
Non-performing assets (NPAs)	39,155,305	–	39,155,305	39,155,305	–	39,155,305	51,930,634	133
Higher-risk categories	1,147,268	–	1,147,268	1,147,268	–	1,147,268	2,868,170	250
Cash items	57,119,603	–	57,119,603	57,119,603	–	57,119,603	365,976	1
Other assets	74,047,847	–	74,047,847	74,047,847	–	74,047,847	74,047,847	100

TEMPLATE 07: CREDIT RISK UNDER STANDARDISED 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 LKR '000**	**Exposures off-balance sheet LKR '000**	**Total LKR '000**	**Exposures on-balance sheet LKR '000**	**Exposures off-balance sheet LKR '000**	**Total LKR '000**	**Risk-weighted assets LKR '000**	**RWA density (%)**
Total risk-weighted amount for credit risk	3,092,686,496	312,280,311	3,404,966,807	2,879,253,940	55,791,343	2,935,045,283	1,009,037,876	34
Claims on Central Government and Central Bank of Sri Lanka	1,570,065,905	12,520,987	1,582,586,892	1,570,065,905	35,534	1,570,101,439	104,078,413	7
Claims on public sector entities (PSEs)	287,952,805	26,176,785	314,129,591	110,058,417	1,967,321	112,025,739	34,966,728	31
Claims on banks exposures	14,767,304	–	14,767,304	14,767,304	–	14,767,304	7,318,902	50
Claims on financial institutions	6,701,868	–	6,701,868	6,701,868	–	6,701,868	3,604,999	54
Claims on corporates	132,329,105	227,145,432	359,474,537	132,220,158	44,501,067	176,721,225	176,709,703	100
Retail claims	644,347,513	46,437,106	690,784,619	608,918,291	9,287,421	618,205,712	511,280,874	83
Claims secured by gold	183,955,880	–	183,955,880	183,955,880	–	183,955,880	2,922	–
Claims secured by residential property	59,509,996	–	59,509,996	59,509,996	–	59,509,996	20,828,499	35
Non-performing assets (NPAs)	40,849,720	–	40,849,720	40,849,720	–	40,849,720	53,625,050	131
Higher-risk categories	1,487,552	–	1,487,552	1,487,552	–	1,487,552	3,718,881	250
Cash items	58,181,917	–	58,181,917	58,181,917	–	58,181,917	365,976	1
Other assets	92,536,931	–	92,536,931	92,536,931	–	92,536,931	92,536,931	100

TEMPLATE 8: CREDIT RISK UNDER STANDARDISED APPROACH: EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS – BANK

Description	Amount (LKR '000) as at 31 December 2017 (Post CCF and CRM)			
Risk weight / Asset classes	0%	20%	50%	60%
Claims on Central Government and Central Bank of Sri Lanka	1,036,797,969	520,392,066	–	
Claims on public sector entities	–	96,323,763	–	
Claims on banks exposures	–	8,080,959	423,018	
Claims on financial institutions	–	–	6,193,738	
Claims on corporates	–	–	23,044	
SME exposures	–	–	–	1,595,021
Retail claims	183,941,269	14,611	–	
Claims secured by residential property	–	–	59,509,996	
Non-performing assets (NPAs)	–	–	6,309	
Higher-risk categories	–	–	–	
Cash items and other assets	55,289,725	1,829,878	–	
Total	1,276,028,962	626,641,277	66,156,105	1,595,021

TEMPLATE 8: CREDIT RISK UNDER STANDARDISED APPROACH: EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS – GROUP

Description	Amount (LKR '000) as at 31 December 2017 (Post CCF and CRM)			
Risk weight / Asset classes	0%	20%	50%	60%
Claims on Central Government and Central Bank of Sri Lanka	1,049,709,374	520,392,066	–	–
Claims on public sector entities	–	96,323,763	–	–
Claims on banks exposures	–	9,120,793	423,018	–
Claims on financial institutions	–	–	6,193,738	–
Claims on corporates	–	–	23,044	–
SME exposures	–	–	–	1,595,021
Retail claims	183,941,269	14,611	–	–
Claims secured by residential property	–	–	59,509,996	–
Non-performing assets (NPAs)	–	–	6,309	–
Higher-risk categories	–	–	–	–
Cash items and other assets	56,352,039	1,829,878	–	–
Total	1,290,002,681	627,681,111	66,156,105	1,595,021

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Amount (LKR '000) as at 31 December 2017 (Post CCF and CRM)

75%	100%	150%	>150%	Total Credit exposures amount
–	–	–	–	1,557,190,034
–	15,701,975	–	–	112,025,739
–	2,942,750	119,482	–	11,566,209
–	508,130	–	–	6,701,868
–	176,698,181	–	–	176,721,225
–	–	–	–	1,595,021
425,147,318	60,492,797	–	–	669,595,995
–	–	–	–	59,509,996
–	13,592,029	25,556,967	–	39,155,305
–	–	–	1,147,268	1,147,268
–	74,047,847	–	–	131,167,451
425,147,318	343,983,709	25,676,449	1,147,268	2,766,376,111

Amount (LKR '000) as at 31 December 2017 (Post CCF and CRM)

75%	100%	150%	>150%	Total Credit Exposures Amount
–	–	–	–	1,570,101,439
–	15,701,975	–	–	112,025,739
–	5,104,011	119,482	–	14,767,304
–	508,130	–	–	6,701,868
–	176,698,181	–	–	176,721,225
–	–	–	–	1,595,021
425,147,318	191,463,372	–	–	800,566,571
–	–	–	–	59,509,996
–	15,286,444	25,556,967	–	40,849,720
–	–	–	1,487,552	1,487,552
–	92,536,931	–	–	150,718,848
425,147,318	497,299,045	25,676,449	1,487,552	2,935,045,283

TEMPLATE 9: MARKET RISK UNDER STANDARDISED MEASUREMENT METHOD

	Bank		Group	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
(a) RWA for interest rate risk	703,158	748,043	703,158	748,043
General interest rate risk	343,458	387,643	343,458	387,643
(i) Net long or short position	343,458	387,643	343,458	387,643
(ii) Horizontal disallowance	–	–	–	–
(iii) Vertical disallowance	–	–	–	–
(iv) Options	–	–	–	–
Specific interest rate risk	359,700	360,400	359,700	360,400
(b) RWA for equity	424,187	363,033	746,306	859,631
(i) General equity risk	213,567	184,076	374,627	432,375
(ii) Specific equity risk	210,620	178,957	371,679	427,256
(c) RWA for foreign exchange and gold	1,847,912	132,417	1,847,912	132,417
(d) Capital charge for market risk (a)+(b)+(c)	2,975,256	1,243,493	3,297,376	1,740,091
RWA for market risk (d) *100/13.5 (2022), *100/12.5 (2021)	22,038,936	9,947,944	24,425,006	13,920,728

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		71,822,080	92,273,369	110,691,908	91,595,786	90,942,446	111,199,190	130,493,754	110,878,463
Capital charges for operational risk (LKR '000)									
The basic indicator approach	15%	10,773,312	13,841,005	16,603,786	13,739,368	13,641,367	16,679,879	19,574,063	16,631,770
Risk-weighted amount for operational risk (LKR '000)									
The basic indicator approach	7.4	79,802,311	102,525,966	122,991,009	101,773,095	101,047,162	123,554,656	144,993,060	123,198,293

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	Not Subject to capital requirement or subject to deduction from capital LKR '000
Assets					
Assets	2,972,028,452	2,972,028,452	2,933,869,731	6,918,067	31,240,654
Cash and cash equivalents	66,842,171	66,842,171	66,842,171	–	–
Balances with Central Bank of Sri Lanka	67,602,313	67,602,313	67,602,313	–	–
Placements with Banks	–	–	–	–	–
Derivative financial instruments	14,882,584	14,882,584	12,994,106	–	1,888,478
Financial assets – At fair value through profit or loss	5,556,754	5,556,754	–	5,556,754	–
Financial assets – At amortised cost					
Loans and receivables to banks	7,689,150	7,689,150	7,689,150	–	–
Loans and receivables to other customers	1,783,106,693	1,783,106,693	1,783,106,693	–	–
Debt instruments measured at amortised cost	913,099,927	913,099,927	913,099,927	–	–
Financial Assets - At fair value through other comprehensive income (OCI)					
Equity instruments at fair value through OCI	1,661,656	1,661,656		1,361,313	300,343
Debt instruments at fair value through OCI	10,378,370	10,378,370	10,378,370	–	–
Investments in subsidiaries	4,280,522	4,280,522	1,152,218	–	3,128,304
Investments in associates	–	–	–	–	–
Goodwill and intangible assets	1,719,177	1,719,177	–	–	19,441,849
Property, plant and equipment	49,330,080	49,330,080	29,888,231	–	–
Other assets	45,879,055	45,879,055	41,116,552	–	4,762,503
Liabilities	2,826,734,321	2,826,734,321	–	–	–
Due to banks	111,452,491	111,452,491	–	–	–
Derivative financial instruments	1,888,478	1,888,478	–	–	–
Due to other customers	2,371,518,898	2,371,518,898	–	–	–
Other borrowings	191,527,573	191,527,573	–	–	–
Current tax liabilities	6,372,157	6,372,157	–	–	–
Net deferred tax liabilities	606,207	606,207	–	–	–
Other liabilities	106,765,050	106,765,050	–	–	–
Subordinated term debts	36,603,467	36,603,467	–	–	–
Shareholders' equity	145,294,131	145,294,131	–	–	–
Stated capital/Assigned capital	12,201,998	12,201,998	–	–	–
Statutory reserve fund	10,070,131	10,070,131	–	–	–
Other reserves	38,397,830	38,397,830	–	–	–
Retained earnings	84,624,172	84,624,172	–	–	–
Total equity and liabilities	2,972,028,452	2,972,028,452	–	–	–
Off-balance sheet liabilities	370,648,773	370,648,773	370,648,773	–	–
Acceptance	74,070,645	74,070,645	74,070,645	–	–
Guarantees	22,841,324	22,841,324	22,841,324	–	–
Letter of credit	68,387,765	68,387,765	68,387,765	–	–
Other contingent items	137,037,060	137,037,060	137,037,060	–	–
Undrawn loan commitments	68,828,585	68,828,585	68,828,585	–	–
(-) Allowance for ECL/impairment losses	(516,606)	(516,606)	(516,606)	–	–

TEMPLATE 12: GROUP ASSESSMENT OF DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBS) AS AT 31 DECEMBER 2022

	Group LKR '000
Size Indicator	
Section 1 – Total Exposures	
Total exposures measure	3,201,579,781
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)	25,119,194
(i) Funds deposited	14,767,304
(ii) Lending	10,351,890
b. Holdings of securities issued by other financial institutions	914,913
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	12,962,606
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	16,324,642
Intra-financial system assets	55,321,355
Section 3 – Intra-financial System Liabilities	
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	150,023,562
(i) Funds deposited	24,659,596
(ii) Borrowings	125,363,966
b. Net negative current exposure of securities financing transactions with other financial institutions	–
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	2,815,352
Intra-financial system liabilities	152,838,914
Section 4 – Securities Outstanding	
Securities outstanding	52,781,563
Substitutability/Financial Institution Infrastructure Indicators	
Section 5 – Payments made in the Reporting Year (excluding intra-group payments)	
Payments activity	3,837,588,965
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	11,141
b. Value of the transactions	202,578

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

	Group LKR '000
Complexity indicators	
Section 9 – Notional amount of Over-the-Counter (OTC) derivatives	
OTC derivatives	152,222,636
Section 10 – Level 2 Assets	
Level 2 assets	8,003,107
Section 11 – Trading and Available-for-Sale (AFS) securities	
a. Debt instruments	10,484,399
b. Equity instruments	2,424,409
c. Government Securities	6,280,524
d. Derivatives	14,882,584
Section 12 – Cross-jurisdictional Liabilities	
Cross-jurisdictional liabilities (excluding derivatives and intra-group liabilities)	159,319,755
Section 13 – Cross-jurisdictional Claims	
Cross-jurisdictional claims (excluding derivatives and intra-group claims)	24,683,406

EXTERNAL ASSURANCE ON SUSTAINABILITY REPORT

Building a better working world

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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF PEOPLE'S BANK

Introduction and scope of the engagement

The Management of People's Bank ("the Bank") engaged us to provide an independent assurance on the following elements of its Integrated Annual Report for the year ended 31 December 2022 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 123 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the GRI Standards.

Basis of our work and level of assurance

We perform our procedures to provide reasonable and limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000) (Revised): "Assurance Engagements Other than Audits or Reviews of Historical Financial Information".

The criteria applied for this assurance engagement:

- The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, publicly available at GRI's global website www.globalreporting.org.

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

Management of the Bank's responsibility for the Report

The Management of the Bank is responsible for selecting the criteria, and for the preparation and presentation and self-declaration of the information contained in the Report in accordance with the given criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the information, such that it is free from material misstatement, whether due to fraud or error.

Ernst & Young's responsibilities

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the given criteria. This Report is made solely to the Bank in accordance with our engagement letter dated 1 March 2023. We disclaim any assumption of responsibility for any reliance on this Report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for Professional Accountants issued by CA Sri Lanka,

EY also applies International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements,* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our assurance conclusions. We performed such other procedures as we considered necessary in the circumstances. Key assurance procedures included:

- Agreed the information on financial performance as disclosed on page 123 of the Report to audited financial statements
- Validated the information presented and checked the calculations performed by the organisation through recalculation

Partners: H M A Jayesinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACMA, D L B Karunathilaka ACMA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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EXTERNAL ASSURANCE ON SUSTAINABILITY REPORT

Building a better working world

- Performed a comparison of the content given in the Report against the criteria given in the selected sustainability standards/frameworks
- Conducted interviews with relevant organisation's personnel to understand the process for collection, analysis, aggregation and presentation of data. Interviews included selected Key Management Personnel and relevant staff
- Read the content presented in the Report for consistency with our overall knowledge obtained during the course of our assurance engagement and requested changes wherever required.
- Provided guidance, recommendations and feedback on the improvement of the sustainability reporting indicators to improve the presentation standard.

Although we considered the effectiveness of Management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

Limitations and considerations

Social, Natural and, Intellectual capital management data/information are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Report.

Conclusion

Based on our procedures and the evidence obtained, we conclude that:

- The information on financial performance as specified on page 123 of the Report are properly derived from the audited financial statements for the year ended 31 December 2022.
- Nothing has come to our attention that causes us to believe that the information presented in the Report are not fairly presented, in all material respects, in accordance with the relevant criteria.

9 March 2023
Colombo

GRI CONTENT INDEX

STATEMENT OF USE

People's Bank has reported in accordance with the GRI Standards for the period 1 January 2022 to 31 December 2022.

GRI 1 USED

GRI 1: Foundation 2021

GRI standard/ other source	Disclosure	Location	Omission			Remarks
			Require-ment (s) omitted	Reason	Explanation	
General disclosures						
GRI 2: General Disclosures 2021	2-1 Organisational details	218, 368				
	2-2 Entities included in the organisation's sustainability reporting	3				
	2-3 Reporting period, frequency and contact point	3, 6				
	2-4 Restatements of information	3				
	2-5 External assurance	5, 346-347				
	2-6 Activities, value chain and other business relationships	60-61, 110-111, 117, 218				
	2-7 Employees	96-99				
	2-8 Workers who are not employees	98				
	2-9 Governance structure and composition	24-27, 62, 169, 171				
	2-10 Nomination and selection of the highest governance body	175, 198				
	2-11 Chair of the highest governance body	172-174				
	2-12 Role of the highest governance body in overseeing the management of impacts	174				
	2-13 Delegation of responsibility for managing impacts	62, 176 , 194-201				
	2-14 Role of the highest governance body in sustainability reporting	16-19, 62				
	2-15 Conflicts of interest	180, 190-192				
	2-16 Communication of critical concerns	106				
	2-17 Collective knowledge of the highest governance body	24-27, 169, 173				
	2-18 Evaluation of the performance of the highest governance body	175				
	2-19 Remuneration policies	175, 188				
	2-20 Process to determine remuneration	175, 188				
	2-21 Annual total compensation ratio	–	2-21	Confidentiality constraints	Bank does not disclose this due to confidentiality reasons	
	2-22 Statement on sustainable development strategy	16-19, 168				
	2-23 Policy commitments	107				
	2-24 Embedding policy commitments	107				
	2-25 Processes to remediate negative impacts	106-107				
	2-26 Mechanisms for seeking advice and raising concerns	106-107				

GRI CONTENT INDEX

GRI standard/ other source	Disclosure	Location	Omission			Remarks
			Requirement (s) omitted	Reason	Explanation	
	2-27 Compliance with laws and regulations	90				
	2-28 Membership associations	118				
	2-29 Approach to stakeholder engagement	47 – 49				
	2-30 Collective bargaining agreements	106				
Material topics						
GRI 3: Material Topics 2021	3-1 Process to determine material topics	50, 54				
	3-2 List of material topics	51-53				
	3-3 Management of material topics	51-53				
Economic performance						
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	123				
	201-2 Financial implications and other risks and opportunities due to climate change	136				
	201-3 Defined benefit plan obligations and other retirement plans	227-228				
	201-4 Financial assistance received from government	–				No exceptional relief received during the year
Market presence						
GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	104				
	202-2 Proportion of senior management hired from the local community	99				
Indirect economic impacts						
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	127				
	203-2 Significant indirect economic impacts	127-128				
Procurement practices						
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	116				
Anti-corruption						
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	–				The Bank evaluates the potential impact of operational risk on all product, processes and activities on an ongoing basis.
	205-2 Communication and training about anti-corruption policies and procedures	106-107				
	205-3 Confirmed incidents of corruption and actions taken	106-107				

GRI CONTENT INDEX

GRI standard/ other source	Disclosure	Location	Omission			Remarks
			Require-ment (s) omitted	Reason	Explanation	
Anti-competitive behavior						
GRI 206: Anti-competitive Behavior 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	111				
Tax						
GRI 207: Tax 2019	207-1 Approach to tax	70, 229-230				
	207-2 Tax governance, control, and risk management	70, 229-230				
	207-3 Stakeholder engagement and management of concerns related to tax	70, 229-230				
	207-4 Country-by-country reporting	–	207-4	Not applicable	PB does not operate in other countries	
Energy						
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	135				
	302-2 Energy consumption outside of the organisation	–	302-2	Not applicable	Not applicable to the Banks operations	
	302-3 Energy intensity	135				
	302-4 Reduction of energy consumption	135				
	302-5 Reductions in energy requirements of products and services	–	302-5	Not applicable	Not applicable to the Banks operations	
Water and effluents						
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	134				
	303-2 Management of water discharge-related impacts	–	303-2	Information unavailable/ incomplete	Bank does not track these	
	303-3 Water withdrawal	–	303-3	Information unavailable/ incomplete	Bank does not track these	
	303-4 Water discharge	–	303-4	Information unavailable/ incomplete	Bank does not track these	
	303-5 Water consumption	134				
Emissions						
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	134				
	305-2 Energy indirect (Scope 2) GHG emissions	134				
	305-3 Other indirect (Scope 3) GHG emissions	134				
	305-4 GHG emissions intensity	134				
	305-5 Reduction of GHG emissions	134				
	305-6 Emissions of ozone-depleting substances (ODS)	–	305-6	Not applicable	Not applicable to the Banks operations	
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	–	305-7	Not applicable	Not applicable to the Banks operations	

GRI CONTENT INDEX

GRI standard/ other source	Disclosure	Location	Omission			Remarks
			Requirement (s) omitted	Reason	Explanation	
Supplier environmental assessment						
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	117-118				
	308-2 Negative environmental impacts in the supply chain and actions taken	–				There were no incidents reported for the year
Employment						
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	100, 105				
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	104				
	401-3 Parental leave	103				
Labour/management relations						
GRI 402: Labour/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	106				
Occupational health and safety						
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	–	403-1	Not applicable	Bank does not have a Management system for Occupational health and safety	
	403-2 Hazard identification, risk assessment, and incident investigation	103-104				
	403-3 Occupational health services	103-104				
	403-4 Worker participation, consultation, and communication on occupational health and safety	103-104				
	403-5 Worker training on occupational health and safety	103-104				
	403-6 Promotion of worker health	103-104				
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	103-104				
	403-8 Workers covered by an occupational health and safety management system	–	403-8	Not applicable	Bank does not have a Management system for Occupational health and safety	
	403-9 Work-related injuries	104				
	403-10 Work-related ill health	104				

GRI CONTENT INDEX

GRI standard/ other source	Disclosure	Location	Omission			Remarks
			Require-ment (s) omitted	Reason	Explanation	
Training and education						
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	101				
	404-2 Programs for upgrading employee skills and transition assistance programs	100-102				
	404-3 Percentage of employees receiving regular performance and career development reviews	102				
Diversity and equal opportunity						
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	98-99, 169				
	405-2 Ratio of basic salary and remuneration of women to men	103				
Non-discrimination						
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	–				No discriminations reported for the year
Local communities						
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	126 - 128				
	413-2 Operations with significant actual and potential negative impacts on local communities	–				No instances were reported for the year
Supplier social assessment						
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	117				
	414-2 Negative social impacts in the supply chain and actions taken	–				No instance were reported for the year
Customer health and safety						
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	113				
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	–				No instances were reported for the year
Marketing and labeling						
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	113				
	417-2 Incidents of non-compliance concerning product and service information and labeling	113				
	417-3 Incidents of non-compliance concerning marketing communications	113				
Customer privacy						
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	113				

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146. **Ms A W Jayasooriya**
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Manager
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Manager
Polonnaruwa

006. **Ms V J K Botheju**
Manager
Hingurakgoda

007. **Ms M A S Sanura**
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008. **Mr E A C Edirisinghe**
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Anuradhapura

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016. **Mr D M U P Dissanayaka**
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Balangoda

018. **Mr K M I S Dissanayake**
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Gampola

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Manager
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Mullatiivu

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Wellawaya

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Manager
Samanthurai

065. **Mr R M Vishnuvarthanan**
Deputy Manager
Kattankudy

066. **Mr T Bharathramana**
Manager
Trincomalee

067. **Mr H S Keembiye Hettige**
Manager
Tangalle

068. **Mr J K Kalubowila**
Manager
Monaragala

069. **Ms K A U Seneviratna**
Manager
Mawanella

070. **Ms M D Ranasinghe**
Manager
Matugama

071. **Ms D R T Janaki Kumari**
Manager
Dematagoda

072. **Mr I R Thenabadu**
Manager
Ambalantota

073. **Ms M K C Jeewanthi**
Manager
Elpitiya

074. **Ms W A G N H Jayathilake**
Manager
Wattegama

075. **Mr N M Santhan**
Manager
Batticaloa

076. **Mr M P W Kurera**
Manager
Wennappuwa

077. **Ms T A R Chandrika**
Manager
Weligama

078. **Ms W A N Udayangani**
Manager
Borella

079. **Ms G M K Jayaweera**
Manager
Veyangoda

080. **Ms H D S Perera**
Manager
Ratmalana

081. **Ms A Samarasinghe**
Manager
Ruwanwella

082. **Ms A M T Abeysinghe**
Manager
Narammala

083. **Ms M M S Perera**
Manager
Nattandiya

084. **Mr W S S Rupasiri**
Manager
Alutgama

085. **Mr D H Nawagamuwa**
Manager
Eheliyagoda

086. **Ms W I P D Perera**
Manager
Thimbirigasyaya

087. **Mr W J Weerakkody**
Manager
Baddegama

088. **Mr B A L Jayatissa**
Manager
Ratnapura

089. **Mr P W B Tennakoon**
Manager
Katugastota

090. **Mr S A Farook**
Manager
Kantalai

091. **Ms A C Konara**
Manager
Moratuwa

092. **Mr K K S P Deshapriya**
Manager
Giriulla

093. **Ms D G G K Dahanayaka**
Manager
Pugoda

BRANCH MANAGERS

094. **Mr K M Ameerdeen**
Manager
Kinniya

095. **Mr K Mathyvathanan**
Manager
Muttur

096. **Mr S M N Samarakoon**
Manager
Medawachchiya

097. **Mr K K D Kossinna**
Manager
Gangodawila

098. **Ms W A I Nimali**
Manager
Kotikawatta

100. **Mr D M J Dissanayaka**
Manager
Marandagahamula

101. **Mr K A U K Devapriya**
Manager
Rambukkana

102. **Mr E G P Pragash**
Manager
Valaichenai

103. **Ms W B L D Fernando**
Manager
Piliyandala

104. **Ms N Sathiyaseelan**
Manager
Jaffna – Main Street

105. **Mr K Rameshnesan**
Manager
Kayts

106. **Ms G Pirathakshi**
Manager
Nelliady

107. **Ms K Sasikala**
Manager
Atchuvely

108. **Mr N Thanesh**
Manager
Chankanai

109. **Mr S Mohanachselvan**
Manager
Chunnakam

110. **Ms K Beeshman**
Manager
Chavakachcheri

111. **Mr A Francis**
Manager
Paranthan

112. **Ms H G R Suranji**
Manager
Theldeniya

113. **Mr N Thineskumar**
Manager
Batticaloa – Town

114. **Mr I M P Ilankoon**
Manager
Galagedara

115. **Mr L W M G De Silva**
Manager
Galewela

116. **Mr C D Senanayaka**
Manager
Passara

117. **Mr C Kodisinghe**
Manager
Akuressa

118. **Ms G K P D Alahakoon**
Manager
Delgoda

119. **Ms W A N Piyasili**
Manager
Narahenpita

120. **Ms S H C A N Senevirathna**
Manager
Walasmulla

121. **Mr P A C J Palihawadana**
Manager
Bandaragama

122. **Mr R R M S B Bambaradeniya**
Manager
Wilgamuwa

123. **Ms R C Suthaharan**
Deputy Manager
Eravur

124. **Mr W H M T S Wijekoon**
Manager
Nikaweratiya

125. **Mr M A D Chinthaka**
Deputy Manager
Kalpitiya

126. **Mr A V D Thushan**
Manager
Grandpass

127. **Ms L Y N Sandamali**
Manager
Nildandahinna

128. **Ms A M U N D K Amarakoon**
Manager
Rattota

129. **Mr P D S K Pathirana**
Manager
Rakwana

130. **Mr W W M Nawaratne**
Manager
Hakmana

131. **Mr A U W Weerarathne**
Manager
Udugama

132. **Mr A P Mahesha**
Manager
Deniyaya

133. **Mr R D Pathma**
Manager
Kamburupitiya

134. **Mr K L P Kithsiri**
Manager
Nuwara – Eliya

135. **Ms E B C M Bandara**
Manager
Dikwella

136. **Ms K H Hemamala**
Manager
Hikkaduwa

137. **Ms T A D Jayathilaka**
Manager
Makandura

138. **Mr K M P Pushpakumara**
Manager
Dambulla

139. **Mr A J C S Perera**
Manager
Pettah

BRANCH MANAGERS

140. **Mr A B Kulasekara**
Deputy Manager
Hasalaka

141. **Mr A S Antonippillai**
Manager
Valvetiturai

142. **Ms H H A S Jayasekara**
Manager
Kochchikade

143. **Ms M M N S Gunasekara**
Manager
Suduwella

144. **Mr R M S P Rathnayaka**
Manager
Hettipola

145. **Mr S Manimaran**
Manager
Wellawatte

146. **Mr K P C S Kularathne**
Manager
Naula

147. **Ms P H I P Siriwardhana**
Manager
Buttala

148. **Ms M D S Fernando**
Manager
Panadura

149. **Mr A M T T Amarapathy**
Manager
Alawwa

150. **Mr S D N J Cristopher**
Manager
Kebitigollewa

151. **Mr T B A G Silva**
Manager
Diyatalawa

152. **Mr K Y R Manawansa**
Manager
Matara – Dharmapala Mawatha

153. **Ms P M Wijesundara**
Manager
Akurana

154. **Ms I D Nilushika**
Manager
Balapitiya

155. **Mr A B M Rizwan**
Manager
Kahawatta

156. **Ms A S Kaluarachchi**
Manager
Uva – Paranagama

157. **Ms W M I E M Balasooriya**
Manager
Menikhinna

158. **Mr E O Udayapriya**
Manager
Senkadagala

159. **Ms I D Pandithaarachchi**
Manager
Kadugannawa

160. **Ms B P C Basnayaka**
Manager
Pelmadulla

161. **Ms B G Ruwani**
Manager
Bulathsinhala

162. **Ms R Jeyachandra**
Manager
Jaffna – University

163. **Mr K R S B Kulasuriya**
Manager
Wariyapola

164. **Mr M A Ilyas**
Dpty.mgr.
Pottuvil

165. **Mr B Seeralan**
Deputy Manager
Mankulam

166. **Mr K Venkadesh**
Manager
Murunkan

167. **Mr M T Pradeep**
Manager
Town Hall – Colombo

168. **Mr Y L C Dhanawardana**
Manager
Kataragama

169. **Ms P M S Sri Wimukthi**
Manager
Galle Bazaar

170. **Mr S A A I R Suraweera**
Deputy Manager
Eppawela

171. **Mr S T Dissanayake**
Manager
Nochchiyagama

172. **Mr K A C Kasthuri**
Manager
Bingiriya

173. **Ms V N Gunasekara**
Manager
Pundaluoya

174. **Ms H P K Samanmali**
Manager
Nugegoda

175. **Ms S K Nawagamuwa**
Manager
Kandana

176. **Ms Y A Senevirathne**
Manager
Mid City

177. **Ms H M D Herath**
Manager
Galenbindunuwewa

178. **Mr M Jegadeesen**
Manager
Maskeliya

179. **Mr H M N M Dissanayaka**
Manager
Galnewa

180. **Mr G B E M K R Ekanayake**
Manager
Deraniyagala

181. **Mr K M A N Bandara**
Manager
Maha-Oya

183. **Ms T K Ekanayake**
Manager
Ankumbura

184. **Ms M M C Rathnayaka**
Manager
Galgamuwa

185. **Ms M H M P A Weerasinghe**
Manager
Kg/Galigamuwa

BRANCH MANAGERS

186. **Mr S M U Asanga**
Manager
Hatton

188. **Ms N S B Yapa**
Manager
Ahangama

189. **Mr A G Anusha**
Manager
Uhana

190. **Mr D Thanashakaran**
Manager
Kaluwanchikudy

191. **Ms K K D R T Karunathilaka**
Manager
Malwana

192. **Ms K M P P Rathnayake**
Manager
Nivithigala

193. **Mr W D S K Chandratilake**
Manager
Ridigama

194. **Ms K D T Dilrukshi**
Manager
Kolonnawa

195. **Ms D M M Gunarathna**
Manager
Haldummulla

196. **Ms S Raddella**
Manager
Kaduwela

197. **Ms L N G De Silva**
Manager
Uragasmanhandiya

198. **Mr M A P N Mallawaarachchi**
Manager
Mirigama

199. **Ms U V S M Premathunga**
Manager
Mawatagama

200. **Ms D M N P Gunaratne**
Manager
Majestic City

201. **Ms P A P Dayananda**
Manager
Ukuwela

202. **Ms W R D Kumudini**
Manager
Kirindiwela

203. **Ms S H H Sikurajapathi**
Manager
Habarana

204. **Mr L D T P Mihiraj**
Manager
Head Quarters Branch

205. **Mr A P D J Pushpakumara**
Manager
Angunakolapelessa

206. **Ms B J Dissanayaka**
Manager
Davulagala

207. **Ms S N C W M I S K Hulugalla**
Manager
Ibbagamuwa

208. **Mr V T R Wasantha Kumara**
Manager
Battaramulla

209. **Ms H M N W K Herath**
Manager
Boralanda

210. **Ms N R Ramanayaka**
Manager
Kollupitiya - Co-Op. Bldg,

211. **Ms Y M C K Yapa**
Manager
Panwila

214. **Ms S P N Ramar**
Manager
Mutwal

215. **Ms D M S D Dissanayaka**
Manager
Madampe

216. **Ms B D T M De Silva**
Manager
Haputale

217. **Ms E K K Udumullage**
Manager
Mahara

218. **Mr K N Jayatissa**
Deputy Manager
Horowupathana

219. **Mr V M B Senanayake**
Manager
Thambuttegama

220. **Ms A M M U Adhikari**
Manager
Anuradhapura – Nuwara Wewa

221. **Ms S Wickramasooriya**
Manager
Hemmathagama

222. **Mr W G W B Wedagedara**
Manager
Wattala

223. **Mr T Karikalan**
Deputy Manager
Karativu

224. **Mr T Umaashankaran**
Dpty.mgr.
Thirukovil

225. **Ms D P Wijayarathna**
Manager
Hali-Ela

226. **Mr H D A Srilal**
Manager
Kurunegala – Maliyadeva St.

227. **Ms N Rajanayagam**
Manager
Chengalady

228. **Mr A L Abdussalam**
Manager
Addalachchenai

229. **Ms R Illanperuma**
Manager
Hanwella

230. **Mr W P K Gunawardana**
Deputy Manager
Thanamalwila

231. **Mr U D S N Ranasinghe**
Manager
Medirigiriya

232. **Mr R M P S Ranasinghe**
Manager
Polonnaruwa – Town

233. **Mr M Premkumar**
Manager
Serunuwara

BRANCH MANAGERS

234. **Ms W L Ranaweera**
Manager
Batapola

235. **Mr A A D S Amarakoon**
Deputy Manager
Kalawana

236. **Ms E P M Rajakaruna**
Manager
Maradana

237. **Ms C S Gamage**
Manager
Kiribathgoda

238. **Ms H G C N Kumari**
Manager
Gonagaldeniya

239. **Mr R N Jeewamal**
Manager
Ja-Ela

240. **Ms M H P S De Silva**
Manager
Keppetipola

241. **Mr G H Malwaththage**
Manager
Pallepola

242. **Mr R A A C Ranasinghe**
Manager
Bakamuna

243. **Ms P M K G Jinadasa**
Manager
Devinuwara

244. **Ms W B M R Weeraratna**
Manager
Beliatta

245. **Mr P Dencil**
Manager
Godakawela

246. **Mr W W P M D Weerasooriya**
Deputy Manager
Meegalewa

247. **Ms W H D S Wimalajeewa**
Manager
Imaduwa

248. **Ms H P A D Rathnakumara**
Manager
Aranayake

249. **Mr M P Chandana**
Manager
Neboda

250. **Ms W N Kumari**
Manager
Kandeketiya

251. **Ms S D Umadevi**
Deputy Manager
Lunugala

252. **Ms E D A P Hettiarachchi**
Deputy Manager
Bulathkohupitiya

253. **Mr K T A R Wickramarathne**
Deputy Manager
Aralaganwila

254. **Ms M V K Imbuldeniya**
Deputy Manager
Welikanda

255. **Mr M M M Niyas**
Manager
Trincomalee – Town

256. **Ms M G R M Madakumbura**
Manager
Pilimathalawa

257. **Ms J M D L Peiris**
Manager
Deltota

258. **Ms B M N D K Balasooriya**
Manager
Medagama

259. **Ms J M N T Sandareka**
Manager
Kehelwatta

260. **Mr A R Amarasiri**
Deputy Manager
Koslanda

261. **Mr P R Silva**
Manager
Pelawatta

262. **Ms H D T R Siriwardena**
Manager
Wadduwa

263. **Mr M A Raban**
Manager
Kuruwita

264. **Mr K H A G Pamuditha**
Manager
Suriyawewa

265. **Mr H K Thilakarathna**
Manager
Middeniya

266. **Mr C Malalasekara**
Manager
Kiriella

267. **Mr T D W Ekanayake**
Manager
Anamaduwa

268. **Mr H Y W W M C K Wijesekara**
Deputy Manager
Girandurukotte

269. **Ms A I Suriyapperuma**
Manager
Badulla – Muthiyangana

270. **Ms M M C A Badullewa**
Manager
Thulhiriya

271. **Ms N H Weerasingha**
Manager
Urubokka

272. **Mr G D S Gamage**
Manager
Thalgaswala

273. **Ms A K P A Attanagoda**
Manager
Kadawatha

274. **Ms D S Hettiarachchi**
Manager
Pussellewa

275. **Ms K Velrane**
Manager
Olcott Mawatha – Colombo

276. **Mr J W K K N Jayasunadara**
Manager
Katunayake

277. **Ms S Satkkuneswaran**
Manager
Sea Street – Colombo

278. **Mr R D R S Kumara**
Manager
Nittambuwa

BRANCH MANAGERS

279. **Ms M N P Perera**
Manager
Pitakotte

280. **Ms N L Wanigasekara**
Manager
Pothuhera

281. **Ms G P G M E Palliyaguru**
Manager
Kobeigane

282. **Ms H D S Fernando**
Manager
Maggona

283. **Ms M A C A Premadasa**
Manager
Baduraliya

284. **Ms R Paramthaman**
Manager
Kannathidy

285. **Mr S Sarvananthan**
Manager
Point Pedro

288. **Ms G Wijesinghe**
Deputy Manager
Kudawella

289. **Mr H G I P H Gamage**
Deputy Manager
Kaltota

290. **Ms N C Dahanayake**
Manager
Moratumulla

291. **Mr H A M Perera**
Manager
Dankotuwa

292. **Mr M P Wijekoon**
Deputy Manager
Udupussellawa

293. **Mr W A V E Kulathunga**
Manager
Dehiowita

294. **Ms M M I D Manthilake**
Manager
Alawathugoda

295. **Ms M K Liynarachchi**
Deputy Manager
Udawalawa

296. **Mr N L F Rifai**
Deputy Manager
Nintavur

297. **Mr B G Dewadasa**
Manager
Dam Street – Colombo

298. **Mr P H J Tilakaratne**
Manager
Central Road

299. **Ms S A B Jaffeer**
Manager
Kegalle Bazaar

300. **Ms L C Gorokgoda**
Manager
Ingiriya

301. **Mr J A P Jayasinghe**
Manager
Galkiriyagama

302. **Ms K A S W Amarathilake**
Manager
Ginigathhena

303. **Mr M Ranjith**
Manager
Mahawewa

304. **Ms T P Karunasena**
Deputy Manager
Walasgala

306. **Ms R M P S Rathnayake**
Manager
Maharagama

307. **Ms D C Mallikarachchi**
Manager
Gandara

308. **Ms R P C N Rajapaksha**
Manager
Kotahena

309. **Mr U B D A Danapala**
Manager
Kollupitiya – Liberty Plaza

310. **Ms C J Gunawardena**
Manager
Bambalapitiya

311. **Mr O D N L Vithanage**
Manager
Beruwala

312. **Ms N K Munasinghe**
Manager
Malwatta Road

313. **Ms W G K M Wickremasinghe**
Manager
Katubedda

315. **Mr R M D M Rajaguru**
Manager
Thalawa

316. **Mr A S Athulasiri**
Manager
Ragama

317. **Mr H S M De Silva**
Manager
Ratnapura – Town

318. **Ms T N Peiris**
Manager
Pamunugama

319. **Ms M A S Himali**
Manager
Kirulapone

320. **Ms D Kalatuwawa**
Manager
Golden Jubilee Branch

321. **Ms D C Jayasinghe**
Manager
Panadura – Town

322. **Mr H J P A Jayasinghe**
Manager
Marawila

324. **Ms S W G C Swarnamali**
Manager
Seeduwa

325. **Ms W A P Chandranganie**
Manager
Wanduramba

327. **Ms I N K Jayawardena**
Manager
Kesbewa

328. **Ms P G U Sandamali**
Manager
Kottawa

329. **Ms V M Erandani**
Deputy Manager
Koggala

BRANCH MANAGERS

330. **Mr J S Chandradasa**
Manager
Dehiattakandiya

331. **Ms T H J Hettiarachchi**
Manager
Lucky Plaza

332. **Mr S Nimal**
Manager
Ganemulla

333. **Ms G K D P S Gunarathna**
Manager
Yakkala

334. **Ms I L T N Ihalagedara**
Manager
Ethugalpura

335. **Ms W A U S Samaranayaka**
Manager
Nugegoda – City

336. **Ms A T N Perera**
Manager
Mount Lavinia

337. **Ms M D Samaradivakera**
Manager
Dehiwala (Galle Road)

338. **Mr M I Yahiya**
Deputy Manager
Sainthamaruthu

339. **Mr S Pavanantharajah**
Deputy Manager
Kallar

340. **Mr P S Christy**
Deputy Manager
Oddamavadi

341. **Ms S P Jayawardena**
Manager
Hatharaliyadda

342. **Mr P Vigneswararajah**
Deputy Manager
Kokkaddichcholai

343. **Ms M H De Silva**
Manager
Karapitiya

344. **Ms K M I K P Kuruppu**
Manager
Melsiripura

345. **Mr H G S L Sumanadasa**
Deputy Manager
Ranna

346. **Mr P Nasurudeen**
Deputy Manager
Maruthmunai

347. **Ms G H W W M M N Samanmali**
Deputy Manager
Badalkumbura

348. **Ms M D M Pushpakumari**
Manager
Boralesgamuwa

349. **Mr W R E I B Ekiriyagala**
Deputy Manager
Pallebedda

350. **Mr K H S Chandralal**
Deputy Manager
Weeraketiya

351. **Ms H P R Srimalee**
Deputy Manager
Thambala

352. **Mr M B Jawfer**
Manager
Pulmudai

353. **Ms B M N T Bandara**
Manager
Rikillagaskada

354. **Ms V N Kodieswary**
Manager
Bagawanthalawa

355. **Ms K M K Pushpa Kumari**
Manager
Kotiyakumbura

356. **Mr M C M Fahmy**
Manager
Chettikulam

357. **Ms F N Zuhair**
Manager
Kandy City Center

358. **Ms S Siriwardana**
Manager
Poojapitiya

359. **Mr R M R Lakmal**
Manager
Piliyandala City Branch

360. **Mr W G M Tikiribanda**
Manager
Polpithigama

361. **Ms P Visakan**
Manager
Kodikamam

362. **Ms W N V Botheju**
Manager
People's Elegance

363. **Mr R M R M Rathnayaka**
Manager
Gelioya

364. **Ms R I Jayaweera**
Manager
Athurugiriya

365. **Ms R M A D Rathnayake**
Deputy Manager
Siyambalanduwa

Scan to view our Branch Network

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.

GLOSSARY OF FINANCIAL/BANKING TERMS

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.

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.

GLOSSARY OF FINANCIAL/BANKING TERMS

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.

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.

GLOSSARY OF FINANCIAL/BANKING TERMS

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).

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 1 capital (Common Equity Tier 1 – CET I
Common Equity Tier 1 (CET I) is a component of Tier 1 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 1 capital (Additional Tier 1 Capital – AT I)
Additional Tier 1 Capital (AT I) is a component of Tier 1 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 2 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 1 capital and Tier 2 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.

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,
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+94 11 244 6316-19, +94 11 248 1481
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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.

Board Secretary

Ms Shyama Wijekoon,
Attorney-at-Law PGEDBM (IBSL)
Email: shyamaw@peoplesbank.lk

Corporate Banking Division

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newnrfc@peoplesbank.lk,
teletran@peoplesbank.lk
SWIFT: PSBKLKLX

People's Card Centre

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Subsidiaries of People's Bank

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Fax: +94 11 243 4530
Email: ptravel@peoplesbank.lk
Web: www.peoplestravels.com

People's Leasing & Finance PLC
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Colombo 8, Sri Lanka.
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Fax: +94 11 263 1000
Email: plclease@plc.lk
Web: www.plc.lk

Subsubsidiaries of People's Bank

(Subsidiaries of People's Leasing & Finance PLC)

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