

**PRADESHIYA SANWARDANA BANK**  
**STATEMENT OF PROFIT OR LOSS**  
**Year ended 31 December 2023**

	<b>Note</b>	<b>2023 Rs.</b>	<b>2022 Rs.</b>
Gross income	7	<b>47,586,440,245</b>	36,202,749,629
Interest income		<b>46,231,708,909</b>	35,273,433,857
Interest expenses		<b>(29,296,476,344)</b>	(19,639,529,550)
<b>Net interest income</b>	8	<b>16,935,232,565</b>	15,633,904,307
Fee and commission income		<b>1,572,085,474</b>	806,547,782
Fee and commission expenses		<b>(409,406,671)</b>	(355,184,923)
<b>Net fee and commission income</b>	9	<b>1,162,678,803</b>	451,362,859
Net trading gain/(loss)	10	<b>(234,375,620)</b>	102,296,546
Other operating income (net)	11	<b>17,021,481</b>	20,471,444
<b>Total operating income</b>		<b>17,880,557,230</b>	16,208,035,156
Impairment charges	12	<b>(2,146,931,766)</b>	(2,852,677,176)
<b>Net operating income</b>		<b>15,733,625,464</b>	13,355,357,980
<b>Less-Operating expenses</b>			
Personnel expenses	13	<b>(9,553,731,005)</b>	(8,739,537,602)
Depreciation and amortization expenses		<b>(592,269,946)</b>	(532,733,987)
Other expenses	14	<b>(2,032,376,546)</b>	(2,084,970,281)
<b>Operating profit before taxes</b>		<b>3,555,247,967</b>	1,998,116,109
Less : Value Added Tax on Financial Services		<b>(1,908,008,376)</b>	(1,561,474,848)
Social Security Contribution Levy		<b>(259,503,214)</b>	(77,525,933)
<b>Profit before Income tax expense</b>		<b>1,387,736,377</b>	359,115,329
Income tax (expense) /reversal	15	<b>(31,336,978)</b>	990,279,323
<b>Profit for the year</b>		<b>1,356,399,399</b>	1,349,394,652
<b>Earnings per share</b>			
Basic Earnings per share	16.1	<b>2.42</b>	2.45
Diluted Earnings per share	16.2	<b>2.42</b>	2.45

*Figures in brackets indicate deductions.*

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 06 to 72.

## STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	Note	2023 Rs.	2022 Rs.
<b>Profit for the year</b>		<b>1,356,399,399</b>	<b>1,349,394,652</b>
<b>Other Comprehensive income/(expenses)</b>			
<b>Other Comprehensive income not to be reclassified to profit or loss</b>			
Actuarial gain on retirement benefit obligation	33.3	<b>680,109,258</b>	156,249,438
Deferred tax effect on above	27.1	<b>(204,032,777)</b>	(46,874,831)
<b>Total Other Comprehensive income for the year, net of taxes</b>		<b>476,076,481</b>	<b>109,374,607</b>
<b>Total comprehensive income for the year</b>		<b>1,832,475,880</b>	<b>1,458,769,259</b>

*Figures in brackets indicate deductions.*

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**PRADESHIYA SANWARDANA BANK**  
**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2023**

	<b>Note</b>	<b>2023 Rs.</b>	<b>2022 Rs.</b>
<b>Assets</b>			
Cash and cash equivalent	18	<b>104,444,214</b>	2,889,883,677
Placements with banks	19	<b>6,005,330,402</b>	6,133,705,351
Equity instruments at fair value through profit or loss	20	<b>145,820</b>	120,280
Financial assets at amortised cost - Loans and receivables from other customers	21	<b>195,771,464,857</b>	198,008,145,156
Financial assets at amortised cost - Debt & other instruments	22	<b>86,964,709,205</b>	65,079,635,909
Equity instruments at fair value through other comprehensive income	23	<b>2,290,929</b>	2,289,919
Property, plant and equipment	24	<b>1,162,704,016</b>	926,615,241
Intangible assets	25	<b>112,445,885</b>	68,867,744
Right of use assets	26.1	<b>860,432,243</b>	718,096,698
Deferred tax assets	27	<b>3,091,874,238</b>	3,525,174,918
Other assets	28	<b>6,899,581,129</b>	8,042,615,550
<b>Total assets</b>		<b>300,975,422,938</b>	285,395,150,443
<b>Liabilities</b>			
Due to banks	29	<b>46,216,167,535</b>	47,470,707,056
Due to other customers	30	<b>226,079,614,772</b>	210,301,323,468
Current tax liabilities	31	<b>(426,311,106)</b>	1,011,924,146
Other liabilities	32	<b>7,917,770,875</b>	7,293,487,262
Retirement benefit obligation	33	<b>2,829,577,605</b>	3,091,581,136
<b>Total liabilities</b>		<b>282,616,819,681</b>	269,169,023,068
<b>Equity</b>			
Stated capital	34	<b>8,521,864,568</b>	8,221,864,565
Statutory reserve fund	35	<b>913,067,836</b>	845,247,866
Retained earnings		<b>4,315,341,596</b>	2,889,785,536
Other reserves	36	<b>4,608,329,257</b>	4,269,229,407
<b>Total shareholders' equity</b>		<b>18,358,603,257</b>	16,226,127,375
<b>Total equity and liabilities</b>		<b>300,975,422,938</b>	285,395,150,443
<b>Contingent liabilities and commitments</b>	39	<b>616,056,531</b>	376,805,196

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 06 to 72.

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

.....  
P.S.Edirisuriya  
Chief Financial Officer

.....  
P.S.Edirisuriya  
General Manager / CEO (Acting)

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

.....  
Chairman/ Director

.....  
Director

28 February 2024  
Colombo

Unaudited

**TRADESHIYA SANWARDANA BANK**  
**STATEMENT OF CHANGES IN EQUITY**  
**Year ended 31 December 2023**

	Stated Capital Note 34 Rs.	Statutory Reserve Fund Note 35 Rs.	Special Reserve Fund Note 36 Rs.	General Reserve Fund Note 36 Rs.	Retained Earnings Rs.	Total Rs.
<b>Balance as at 01st January 2022</b>	8,047,229,930	777,778,134	632,168,461	3,299,712,282	2,636,433,521	15,393,322,328
Adjustment for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 (Note 15.5)					(800,598,847)	(800,598,847)
<b>Adjusted balance as at 1st January 2022</b>	<b>8,047,229,930</b>	<b>777,778,134</b>	<b>632,168,461</b>	<b>3,299,712,282</b>	<b>1,835,834,674</b>	<b>14,592,723,481</b>
<b>Total Comprehensive Income for the year</b>						
Profit for the year	-	-	-	-	1,349,394,652	1,349,394,652
Other comprehensive Income, net of tax	-	-	-	-	109,374,607	109,374,607
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,458,769,259</b>	<b>1,458,769,259</b>
<b>Transactions with equity holders, recognized directly in equity</b>						
Issued stated capital	174,634,635					174,634,635
Transferred to Statutory Reserve Fund	-	67,469,733	-	-	(67,469,733)	-
Transferred to Special Reserve Fund	-	-	67,469,734	-	(67,469,734)	-
Transferred to General Reserve Fund	-	-	-	269,878,930	(269,878,930)	-
<b>Transactions with equity holders, recognized directly in equity</b>	<b>174,634,635</b>	<b>67,469,733</b>	<b>67,469,734</b>	<b>269,878,930</b>	<b>(404,818,397)</b>	<b>174,634,635</b>
<b>Balance as at 31st December 2022</b>	<b>8,221,864,565</b>	<b>845,247,866</b>	<b>699,638,195</b>	<b>3,569,591,213</b>	<b>2,889,785,536</b>	<b>16,226,127,375</b>
<b>Balance as at 01st January 2023</b>	<b>8,221,864,565</b>	<b>845,247,866</b>	<b>699,638,195</b>	<b>3,569,591,213</b>	<b>2,889,785,536</b>	<b>16,226,127,375</b>
<b>Total Comprehensive Income for the year</b>						-
Profit for the year	-	-	-	-	1,356,399,399	1,356,399,399
Other comprehensive Income, net of tax	-	-	-	-	476,076,481	476,076,481
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,832,475,880</b>	<b>1,832,475,880</b>
<b>Transactions with equity holders, recognized directly in equity</b>						
Issued stated capital	300,000,002	-	-	-	-	300,000,002
Transferred to Statutory Reserve Fund	-	67,819,970	-	-	(67,819,970)	-
Transferred to Special Reserve Fund	-	-	67,819,970	-	(67,819,970)	-
Transferred to General Reserve Fund	-	-	-	271,279,880	(271,279,880)	-
<b>Transactions with equity holders, recognized directly in equity</b>	<b>300,000,002</b>	<b>67,819,970</b>	<b>67,819,970</b>	<b>271,279,880</b>	<b>(406,919,820)</b>	<b>300,000,002</b>
<b>Balance as at 31st December 2023</b>	<b>8,521,864,568</b>	<b>913,067,836</b>	<b>767,458,165</b>	<b>3,840,871,093</b>	<b>4,315,341,596</b>	<b>18,358,603,257</b>

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 06 to 72.

**STATEMENT OF CASH FLOWS****Year ended 31 December 2023**

	<b>Note</b>	<b>2023 Rs.</b>	<b>2022 Rs.</b>
<b>Cash flow from operating activities</b>			
Profit before tax		<b>1,387,736,377</b>	359,115,328
Adjustment for:			
<b>Non-cash items included in profit before tax</b>			
Depreciation of property, plant and equipment/ Amortization of ROU	24	<b>541,831,458</b>	487,812,469
Amortization of intangible assets	25	<b>62,778,029</b>	46,808,061
Interest expense on leases	26.2	<b>40,081,005</b>	49,991,183
Interest expense on debentures		-	76,176,663
Dividend income	10	<b>(3,858,192)</b>	(4,384,680)
Impairment charges	12	<b>2,146,620,187</b>	2,852,677,176
Changes in equity Instruments at fair value through profit or loss	10	<b>(25,540)</b>	67,860
Exchange gain/ (loss)	10	<b>238,259,352</b>	(97,979,726)
Charge for retirement benefit obligation	33.1	<b>708,495,411</b>	567,113,577
(Profit) / loss on sale of Property, plant and equipment	11	<b>1,221,778</b>	93,147
Recoveries of NPL loans (Written Off)	11	<b>(118,139)</b>	(411,274)
<b>Changes in operating assets</b>			
Net change in loans and receivables from other customers		<b>124,895,682</b>	(25,603,792,299)
Net Change in other assets		<b>1,110,752,201</b>	(3,150,740,674)
Net change in Financial investments at amortised cost-Debt & other instruments		<b>5,221,585,855</b>	(6,566,581,516)
<b>Changes in operating liabilities</b>			
Net change in due to banks		<b>2,341,574,441</b>	1,875,544,521
Net change in due to other customers		<b>15,778,291,304</b>	22,548,858,212
Net change in other liabilities		<b>266,219,977</b>	(651,469,639)
Gratuity paid		<b>(592,541,749)</b>	(66,254,402)
Taxes on financial services		-	-
Tax Paid		<b>(3,161,746,045)</b>	(1,609,671,945)
<b>Net cash generated from/(used in) operating activities</b>		<b>26,212,053,390</b>	(8,887,027,959)
<b>Cash flows from investing activities</b>			
Purchase of Property, plant and equipment	24	<b>(462,912,300)</b>	(207,875,911)
Purchase of intangible assets	25	<b>(106,975,432)</b>	(1,987,025)
Investment in Fixed deposits (more than three months)	22.2	<b>6,583,774,836</b>	(17,403,319,430)
Proceeds from the sale of property, plant and equipment		<b>1,221,778</b>	(779,590)
Dividend Income Received	10	<b>3,858,192</b>	4,384,680
<b>Net cash (used in)/from investing activities</b>		<b>6,018,967,075</b>	(17,609,577,276)
<b>Cash flows from financing activities</b>			
Payment of principal of Operating Lease	26.2	<b>(361,732,641)</b>	(327,195,209)
Net proceeds from the Term Loans	29	<b>(1,254,539,521)</b>	15,494,249,151
Redemption of Debentures		-	(2,000,000,000)
Interest paid on debentures		-	(76,176,663)
<b>Net cash from financing activities</b>		<b>(1,616,272,163)</b>	13,090,877,278
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>		<b>30,614,748,302</b>	(13,405,727,957)
Cash & cash equivalents at the beginning of the year		<b>30,165,020,556</b>	43,570,748,513
<b>Cash and cash at the end of the year</b>		<b>60,779,768,858</b>	30,165,020,556
<b>Reconciliation of Cash &amp; Cash Equivalents</b>			
Cash and cash equivalent	18	<b>104,444,214</b>	2,889,883,677
Favorable balances with banks			
Placements with Banks		<b>61,128,549,024</b>	6,133,705,350
Fixed deposits less than three months	22.2	<b>1,203,602,353</b>	21,726,025,221
Unfavorable balances with banks		<b>(1,656,826,734)</b>	(584,593,693)
		<b>60,779,768,858</b>	30,165,020,556

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 06 to 72.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

<b>7 GROSS INCOME</b>	<b>2023 Rs.</b>	<b>2022 Rs.</b>
Interest income (Note 8.1)	46,231,708,909	35,273,433,857
Fee and commission income (Note 9)	1,572,085,474	806,547,782
Net trading gain/(loss) (Note 10)	(234,375,620)	102,296,546
Other operating income (Note 11)	17,021,481	20,471,444
<b>Total Gross Income</b>	<b>47,586,440,245</b>	<b>36,202,749,629</b>
<b>8 NET INTEREST INCOME</b>	<b>2023 Rs.</b>	<b>2022 Rs.</b>
<b>8.1 Interest Income</b>		
Placements with banks	1,166,651,725	760,952,114
Financial assets at amortised cost		
Loans and receivables from other customers	32,215,973,068	25,287,684,763
Debt & other instruments	12,849,084,117	9,224,796,980
<b>Total interest income</b>	<b>46,231,708,909</b>	<b>35,273,433,857</b>
<b>8.2 Interest expense</b>		
Due to banks	(3,023,567,436)	(2,149,689,728)
Due to other customers	(26,232,053,083)	(17,607,209,517)
Interest expense on lease liabilities	(40,855,824)	117,369,695
<b>Total interest expenses</b>	<b>(29,296,476,344)</b>	<b>(19,639,529,550)</b>
<b>Net interest income</b>	<b>16,935,232,565</b>	<b>15,633,904,307</b>
<b>9 NET FEE AND COMMISSION INCOME</b>	<b>2023 Rs.</b>	<b>2022 Rs.</b>
Fee and commission income	1,572,085,474	806,547,782
Fee and commission expenses	(409,406,671)	(355,184,923)
<b>Net fee and commission income</b>	<b>1,162,678,803</b>	<b>451,362,859</b>
<b>Comprising</b>		
Loans	1,071,944,162	709,899,122
Trade and remittances	12,417,741	9,638,064
Deposits	(363,319,354)	(320,973,518)
Others	441,636,253	52,799,191
<b>Net fee and commission income</b>	<b>1,162,678,803</b>	<b>451,362,859</b>
<b>10 NET TRADING GAIN/(LOSS)</b>	<b>2023 Rs.</b>	<b>2022 Rs.</b>
Financial assets recognised through profit or loss - fair value change	25,540	(67,860)
Exchange (loss)/ gain	(238,259,352)	97,979,726
Dividend income	3,858,192	4,384,680
<b>Total</b>	<b>(234,375,620)</b>	<b>102,296,546</b>

<b>11 NET OTHER OPERATING INCOME</b>	<b>2023 Rs.</b>	<b>2022 Rs.</b>
Gain/ (Loss) on disposal of property, plant and equipment	1,221,778	93,147
Recovery of loans written off	118,139	411,274
Other income	15,681,564	19,967,023
<b>Total</b>	<b>17,021,481</b>	<b>20,471,444</b>
<b>12 IMPAIRMENT CHARGES</b>	<b>2023 Rs.</b>	<b>2022 Rs.</b>
Financial assets at amortised cost - Loans and receivables from other customers (Note 21.2)	(2,112,214,335)	(2,848,036,496)
Financial assets measured at amortised cost - debt and other instruments (Note 22.3)	461,446	(1,065,829)
Undrawn credit commitments and financial guarantees (Note 39.1.1)	(35,178,877)	(3,574,850)
<b>Net impairment (charge) / reversal for loans and other losses</b>	<b>(2,146,931,766)</b>	<b>(2,852,677,176)</b>
<b>13 PERSONNEL EXPENSES</b>	<b>2023 Rs.</b>	<b>2022 Rs.</b>
Salary and bonus	5,974,197,418	5,596,751,248
Contributions to EPF/ETF	873,336,033	872,212,354
Contributions to defined benefit plans	730,744,301	620,181,014
Others	1,975,453,253	1,650,392,987
<b>Total</b>	<b>9,553,731,005</b>	<b>8,739,537,602</b>
<b>14 OTHER EXPENSES</b>	<b>2023 Rs.</b>	<b>2022 Rs.</b>
Directors' emoluments	1,992,667	4,248,060
Auditors' remunerations	3,000,000	2,285,841
Professional and legal expenses	3,407,807	21,347,210
Office administration and establishment expenses	1,613,763,016	1,396,364,812
Computerization expenses	175,457,973	436,221,334
Business tax expenses	1,698,544	1,636,420
Other commission paid	248,351	335,352
Deposit Insurance Premium	216,390,450	203,169,932
Crop insurance levy	8,892,359	13,551,052
Staff security deposits interest	7,492,218	5,814,102
Capital loss on pawning advance	33,162	(3,834)
<b>Total</b>	<b>2,032,376,546</b>	<b>2,084,970,281</b>

MADESHIYA SANWARDANA BANK  
NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 December 2023

15	INCOME TAX EXPENSE	2023 Rs.	2022 Rs.
15.1	Amounts Recognised in Profit or Loss		
	Current Tax Expense		
	Tax on current year's profits (Note 15.3)	(27,437,013)	1,301,405,280
	Under/(Over) provision in respect of previous years	(170,493,912)	16,570,076
		<u>(197,930,925)</u>	<u>1,317,975,356</u>
	Deferred Tax Expense		
	Reversal on temporary differences (Note 27.2)	229,267,903	(2,308,254,679)
		<u>229,267,903</u>	<u>(2,308,254,679)</u>
	Total income tax expense recognised in profit or loss	<u>31,336,978</u>	<u>(990,279,323)</u>
15.2	Amounts Recognised in Other Comprehensive Income		
	Deferred Tax Expense		
	Reversal on temporary differences (Note 27.2)	204,032,777	46,874,831
	Total income tax expense recognised in other comprehensive income	<u>204,032,777</u>	<u>46,874,831</u>
15.3	Reconciliation of the accounting profit to income tax expense	2023 Rs.	2022 Rs.
	Profit before income tax expense	1,387,736,377	359,115,328
	Exempt income		
	Interest Income	(2,625,748,733)	(1,705,392,315)
	Add : Disallowable expenses	4,261,783,144	6,902,036,608
	Less : Allowable expenses	(3,113,298,400)	(733,790,790)
	Taxable Income from Business	(89,527,613)	4,821,968,832
	Tax liability for the year ending	30%/15%	30%/15%
	Tax @ 30%	(28,015,741)	1,300,747,721
	Tax @ 15%	578,729	657,559
	Tax on current year's profits	<u>(27,437,013)</u>	<u>1,301,405,280</u>
	Deferred tax reversal (Note 27.2)	229,267,903	(2,308,254,679)
	Under/(Over) provision in respect of previous years	(170,493,912)	16,570,076
	Income tax expense	<u>31,336,978</u>	<u>(990,279,323)</u>
	Effective current tax rate	<u>2.26%</u>	<u>-275.76%</u>

15.4	Reconciliation of effective tax rate	2023 %	Rs.	2022 %	Rs.
	Profit before income tax expense		1,387,736,377		359,115,328
	Income tax for the period	30.00%	416,320,913	27.00%	96,961,139
	Tax effect of expenses that are not deductible for tax purposes	92.05%	1,277,377,485	518.93%	1,863,549,884
	Tax effect of expenses that are deductible for tax purposes	-67.30%	(933,989,520)	-55.50%	(199,307,377)
	Exempt income	-56.76%	(787,724,620)	-128.22%	(460,455,925)
	Tax on Dividend Income	0.04%	578,729	0.18%	657,559
	Deferred tax reversal (Note 27.2)	16.5%	229,267,903	-642.8%	(2,308,254,679)
	(Over)/ under provision in respect of previous years	-12.29%	(170,493,912)	4.61%	16,570,076
	Total Income Tax Expense	2.26%	<u>31,336,978</u>	-275.76%	<u>(990,279,323)</u>

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

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

15.5 Surcharge tax levied under Surcharge Act No.14 of 2022 (ST Act)

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

16 EARNINGS PER SHARE

16.1 Basic Earnings per Share

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

For the Year ended 31st December	2023	2022
Profit for the year attributable to ordinary equity holders of the Bank (Rs.)	1,356,399,399	1,349,394,652
Weighted average number of ordinary shares in issue (No.)	561,484,675	551,290,995
Basic earnings per ordinary share	<u>2.42</u>	<u>2.45</u>

16.2 Diluted Earnings per Share

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



# 17 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

As at 31 December 2023	Note	Financial assets measured at fair value through other profit or loss	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
		Rs.	Rs.	Rs.	Rs.
<b>Financial Assets</b>					
Cash and cash equivalent	18	-	104,444,214	-	104,444,214
Placements with banks	19	-	6,005,330,402	-	6,005,330,402
Equity Instruments at fair value through profit or loss	20	145,820	-	-	145,820
Financial assets at amortised cost-Loans and receivables from other customers	21	-	195,771,464,857	-	195,771,464,857
Financial investments at amortised cost-Debt & other instruments	22	-	86,964,709,205	-	86,964,709,205
Equity Instruments at fair value through other comprehensive income	23	-	-	2,290,929	2,290,929
Other financial assets	28	-	4,714,635,862	-	4,714,635,862
<b>Total financial assets</b>		<b>145,820</b>	<b>293,560,584,540</b>	<b>2,290,929</b>	<b>293,563,021,289</b>

As at 31 December 2023	Note	Financial Liabilities measured at fair value through other profit or loss	Financial Liabilities measured at amortised cost	Financial Liabilities measured at fair value through other comprehensive income	Total
			Rs.	Rs.	Rs.
<b>Financial Liabilities</b>					
Due to banks	29	-	46,216,167,535	-	46,216,167,535
Due to other customers	30	-	226,079,614,772	-	226,079,614,772
Other liabilities	32	-	5,338,363,107	-	5,338,363,107
<b>Total financial liabilities</b>		<b>-</b>	<b>277,634,145,414</b>	<b>-</b>	<b>277,634,145,414</b>

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

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

<b>18</b>	<b>CASH AND CASH EQUIVALENTS</b>	<b>2023</b>	<b>2022</b>
		<b>Rs.</b>	<b>Rs.</b>
	Cash in hand	<b>959,534,987</b>	919,970,763
	Other bank balances	<b>(855,090,773)</b>	1,969,912,914
		<b>104,444,214</b>	<b>2,889,883,677</b>

<b>19</b>	<b>PLACEMENTS WITH BANKS</b>	<b>2023</b>	<b>2022</b>
		<b>Rs.</b>	<b>Rs.</b>
	Money market placements	<b>6,005,330,402</b>	6,133,705,351
	<b>Total placements with banks</b>	<b>6,005,330,402</b>	<b>6,133,705,351</b>

**20 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

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

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

	2023 Rs.	2022 Rs.
Gross loans and receivables ( <b>Note 21.1</b> )	<b>215,296,266,722</b>	215,372,501,881
(Less): Staff loan fair value adjustment	<b>(1,624,841,234)</b>	(1,576,948,950)
	<b>213,671,425,488</b>	213,795,552,931
Less: Expected Credit Loss Allowance - Individual Impairment ( <b>Note 21.2.1</b> )	<b>(1,130,478,733)</b>	(1,362,761,334)
Less: Expected Credit Loss Allowance - Collective Impairment ( <b>Note 21.2.2</b> )	<b>(16,769,481,898)</b>	(14,424,646,441)
<b>Net loans and receivables from other customers</b>	<b>195,771,464,857</b>	198,008,145,156

**21.1 Analysis of Financial Assets at Amortised Cost - Loans and Receivables from Other Customers**

	2023 Rs.	2022 Rs.
<b>21.1.1 By product</b>		
Pawning	<b>45,581,579,087</b>	42,234,452,674
Staff loans	<b>5,864,336,559</b>	5,501,098,905
Leasing	<b>909,648,615</b>	1,397,522,296
Short-term	<b>17,706,900,606</b>	13,716,623,362
Long-term	<b>145,233,801,855</b>	152,522,804,644
<b>Gross total</b>	<b>215,296,266,722</b>	215,372,501,881
<b>21.1.2 By currency</b>		
Sri Lankan rupee	<b>215,296,266,722</b>	215,372,501,881
<b>Gross total</b>	<b>215,296,266,722</b>	215,372,501,881
<b>21.1.3 By industry</b>		
Agriculture and fishing	<b>36,009,465,386</b>	77,425,986,329
Manufacturing	<b>29,347,624,658</b>	30,674,769,876
Leasing	<b>909,648,615</b>	1,382,157,636
Transport	<b>55,047,698</b>	76,097,009
Construction /housing	<b>15,448,706,881</b>	19,645,882,183
Traders	<b>30,321,114,853</b>	30,799,835,516
Others (consumptions/against deposit/staff/tourism)	<b>103,204,658,629</b>	55,367,773,330
<b>Gross total</b>	<b>215,296,266,722</b>	215,372,501,881

	2023 Rs.	2022 Rs.
<b>21.2 Expected Credit Loss Allowance</b>		
<b>21.2.1 Individual Impairment</b>		
Balance as at 01 January	1,362,761,334	1,581,171,535
Net charge to profit or loss	(232,282,601)	(218,410,201)
<b>Balance as at 31 December</b>	<b>1,130,478,733</b>	<b>1,362,761,334</b>
<b>21.2.2 Collective Impairment</b>		
Balance as at 01 January	14,424,646,441	11,357,963,453
Net charge to profit or loss	2,344,185,357	3,066,446,696
Other movements / Write off	650,100	236,292
<b>Balance as at 31 December</b>	<b>16,769,481,898</b>	<b>14,424,646,441</b>

**21.3 Analysis of Loans and Receivables from Other Customers based on Exposure to Credit Risk**

As at 31 December 2023	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Individually impaired loans	-	1,367,732,172	1,894,117,863	3,261,850,035
<u>Loans subjected to collective impairment</u>				
Term Loan Other	5,599,591,408	741,150,456	1,687,102,568	8,027,844,432
Term Loan Industrial	4,203,129,919	5,143,408,501	4,353,737,765	13,700,276,184
Term Loan Commercial	9,187,222,064	8,988,983,384	5,113,068,343	23,289,273,791
Term Loan Agriculture	7,925,269,992	6,399,181,198	3,716,812,969	18,041,264,159
Term Loan Housing	29,910,756,773	8,514,448,658	5,752,266,078	44,177,471,509
Refinance	14,472,592,841	16,782,958,903	7,048,739,976	38,304,291,721
Liyaisura	441,015	247,160	29,949,894	30,638,070
Pawning	41,219,433,457	3,530,940,798	849,905,154	45,600,279,410
Leasing	472,493,140	205,991,581	147,911,986	826,396,708
Staff loans	5,797,009,241	41,504,149	25,835,170	5,864,348,559
Loans Against Deposits	13,411,384,763	638,930,585	3,981,587	14,054,296,935
SME			118,035,211	118,035,211
<b>Gross loans to &amp; receivable from other customers</b>	<b>132,199,324,614</b>	<b>52,355,477,544</b>	<b>30,741,464,565</b>	<b>215,296,266,722</b>
Impairment for expected credit losses	(2,617,598,943)	(5,238,949,197)	(10,043,412,493)	(17,899,960,633)
<b>Net loans to &amp; receivable from other customers *</b>	<b>129,581,725,670</b>	<b>47,116,528,347</b>	<b>20,698,052,072</b>	<b>197,396,306,090</b>
<b>As at 31 December 2022</b>	<b>Stage 1 Rs.</b>	<b>Stage 2 Rs.</b>	<b>Stage 3 Rs.</b>	<b>Total Rs.</b>
Individually impaired loans	-	-	3,914,938,412	3,914,938,412
<u>Loans subjected to collective impairment</u>				
Term Loan Other	6,235,310,221	470,348,720	329,766,321	7,035,425,261
Term Loan Industrial	7,197,631,331	5,043,062,302	2,842,564,144	15,083,257,777
Term Loan Commercial	12,777,291,982	8,277,103,276	3,588,432,875	24,642,828,133
Term Loan Agriculture	11,735,212,472	5,357,081,276	2,493,687,055	19,585,980,803
Term Loan Housing	39,340,010,010	6,685,513,025	3,772,200,402	49,797,723,437
Refinance	19,581,638,683	13,281,543,155	3,031,476,105	35,894,657,943
Liyaisura	37,142	-	33,929,845	33,966,988
Pawning	39,780,415,414	2,361,740,747	92,296,513	42,234,452,674
Leasing	836,543,168	250,204,784	106,561,580	1,193,309,532
Staff loans	5,474,357,955	5,121,216	21,631,734	5,501,110,905
Loans Against Deposits	9,650,382,255	375,941,462	307,212,888	10,333,536,605
SME			121,313,411	121,313,411
<b>Gross loans to &amp; receivable from other customers</b>	<b>152,608,830,634</b>	<b>42,107,659,962</b>	<b>20,656,011,285</b>	<b>215,372,501,881</b>
Impairment for expected credit losses	(4,125,594,789)	(5,063,057,294)	(6,598,755,693)	(15,787,407,777)
<b>Net loans to &amp; receivable from other customers *</b>	<b>148,483,235,844</b>	<b>37,044,602,668</b>	<b>14,057,255,591</b>	<b>199,585,094,104</b>

\* before zero rated loan and staff loan adjustments

		2023		2022		
		Rs.		Rs.		
22	FINANCIAL ASSETS AT AMORTISED COST-DEBT AND OTHER INSTRUMENTS					
	Quoted debentures (Note 22.1)	623,946,610		623,946,610		
	Government debt securities-treasury bills & bonds	60,478,658,961		11,487,849,406		
	Investment in Fixed Deposits (Note 22.2)	25,864,468,910		52,970,666,614		
	Total financial assets at amortised cost	86,967,074,481		65,082,462,630		
	Less: Expected Credit Loss Allowance (Note 22.3)	(2,365,275)		(2,826,721)		
	Net financial assets at amortised cost	86,964,709,205		65,079,635,909		
22.1	Quoted Debentures					
		2023		2022		
		No of Debentures	Cost of Investment Rs.	No of Debentures	Cost of Investment Rs.	Amortized Cost Rs.
	Commercial Bank of Ceylon PLC	-	-	-	-	-
	DFCC	5,000,000	500,000,000	5,000,000	500,000,000	508,630,137
	Seylan Bank	1,077,200	107,720,000	1,077,200	107,720,000	115,316,473
	Total	6,077,200	607,720,000	6,077,200	607,720,000	623,946,610
	As at 31 December			2023		2022
				Rs.		Rs.
22.2	Investment in Fixed Deposits					
	Fixed deposits less than three months			1,203,602,353		21,726,025,221
	Fixed deposits more than three months			24,660,866,557		31,244,641,393
	Total			25,864,468,910		52,970,666,614
22.2.1	Analysis of Financial Assets at Amortised Cost - Debt and Other Instruments					
22.2.1.1	By Currency					
	Sri Lankan Rupee			2,120,013,928		28,069,212,094
	United States Dollar			23,744,454,982		24,901,454,519
	Total Financial assets measured at amortised cost			25,864,468,910		52,970,666,614
22.2.1.2	By Collateralisation					
	Pledged as collateral			9,161,484,023		10,051,950,266
	Unencumbered			16,702,984,887		42,918,716,348
	Total Financial assets measured at amortised cost			25,864,468,910		52,970,666,614
22.2.1.3	Reconciliation for Financial Assets Measured at Amortised Cost - Debt and Other Instruments					
	Balance as at 1 January			12,126,553,139		5,435,733,610
	Net Acquisitions and Maturities during the Year			48,976,052,432		6,693,646,250
	Less: Expected Credit Loss Allowance (Note 22.3)			(2,365,275)		(2,826,721)
	Balance as at 31 December			61,100,240,296		12,126,553,139
22.3	Expected Credit Loss Allowance					
	Balance as at 1st January			2,826,721		1,760,892
	Net Charge (Reversal) for the year			(461,446)		1,065,829
	Balance as at 31 December			2,365,275		2,826,721
23	EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME					
	As at 31st December			2023		2022
				Rs.		Rs.
	Unquoted Equity Securities (Note 23.1)			2,290,929		2,289,919
				2,290,929		2,289,919
23.1	Unquoted Equity Securities					
		2023		2022		
	As at 31st December	No. of Shares/ Percentage	Cost of Investment Rs.	No. of Shares	Cost of Investment Rs.	Market Value Rs.
	CRIB	1,821	2,289,919	1,821	2,289,919	2,289,919
	NCGI	100	1,010	-	-	-
	Total	1,921	2,290,929	1,821	2,289,919	2,289,919

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2023

## 24 PROPERTY, PLANT AND EQUIPMENT

	2023								
	Land and Buildings	Leasehold properties	Computer, Hardware	Office, Equipment, Furniture and Fittings	Motor Vehicles	Partition & Fittings	Work-in Progress	Other	Total
	Rs.		Rs.	Rs.	Rs.	Rs.			Rs.
<b>Cost</b>									
Opening balance as at 01 January 2023	707,918,496		807,585,212	1,414,304,409	387,254,915	497,042,625	6,924,347	657,900	3,821,687,905
Additions	18,167,140		283,576,100	62,929,806	-	37,005,500	61,233,754		462,912,300
Disposals	-		(7,612,533)	(15,718,396)	(476,000)	(1,347,640)			(25,154,569)
Write off	-		-	-	-	-	-		-
Transfers during the Year	-		(121,420)	121,420	-	-	-	-	(0)
Reclassification Adjustments			(6,965,279)	9,065,850	253,920	(1,493,099)	(820,184)		41,208
<b>Closing balance as at 31 December 2023</b>	<b>726,085,636</b>	<b>-</b>	<b>1,076,462,080</b>	<b>1,470,703,090</b>	<b>387,032,835</b>	<b>531,207,385</b>	<b>67,337,917</b>	<b>657,900</b>	<b>4,259,486,845</b>
<b>(Less): Accumulated depreciation</b>									
Opening balance as at 01 January 2023	230,259,640		663,403,316	1,234,266,161	389,163,206	377,978,331	-		2,895,070,653
Charge for the year	25,018,326		86,294,279	74,376,867	(2,376,813)	43,870,735	-		227,183,394
Disposals	-		(7,558,077)	(15,717,635)	(475,995)	(1,347,621)	-		(25,099,328)
Written off	-		-	-	-	-	-		-
Transfers during the Year	-		(64,239)	64,239	-	-	-		(0)
Reclassification Adjustments	-		1,538,888	(2,923,565)	634,425	272,628	-		(477,624)
<b>Closing balance as at 31 December 2023</b>	<b>255,277,965</b>	<b>-</b>	<b>743,614,166</b>	<b>1,290,066,068</b>	<b>386,944,823</b>	<b>420,774,072</b>	<b>-</b>	<b>-</b>	<b>3,096,677,095</b>
<b>Net book value as at 31 December 2023</b>	<b>470,807,671</b>	<b>-</b>	<b>332,847,914</b>	<b>180,637,022</b>	<b>88,012</b>	<b>110,433,313</b>	<b>67,337,917</b>	<b>657,900</b>	<b>1,162,809,749</b>

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2023

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

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

**24.1 Fully Depreciated Property, Plant and Equipment**

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

<b>As at 31 December</b>	<b>2023</b>	<b>2022</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Asset Class</b>		
Building	<b>3,562,414</b>	3,562,414
Computer, Hardware	<b>394,666,351</b>	394,666,351
Office, Equipment, Furniture and Fittings	<b>619,998,427</b>	619,998,427
Motor Vehicles	<b>366,272,260</b>	366,272,260
Partition & Fittings	<b>174,463,538</b>	174,463,538
Software	<b>112,232,689</b>	112,232,689
	<b><u>1,671,195,678</u></b>	<b><u>1,671,195,678</u></b>

**24.2 Title restrictions on property, plant and equipment**

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

**24.3 Property, plant and equipment pledged as security for liabilities**

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

**24.4 Compensation from third parties for items of property, plant and equipment**

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

**24.5 Temporally idle property, plant and equipment**

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



24.6 Freehold Lands and Buildings

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

Name of Premises and address	Extent (Perches)	Building (Square feet)	Date of valuation	Cost of Land	Cost of Building	Total Value	Accumulated Depreciation	Written down value
				Rs	Rs	Rs	Rs	Rs
<b>H/O - No 933, Kandy Rd, Wedamulla, Kelaniya</b>	50.4	5,375	March 5, 2012	143,064,464	139,371,952	282,436,416	70,750,632	211,685,784
<b>Central Province</b>						-		-
Matale -No 62, Main Street, Matale	4.8	2,280	December 26, 2014	-	11,915,631	11,915,631	5,370,195	6,545,436
Dambulla - No734, Anuradhapura Road, Dambulla	8.2	2,210	December 18, 2003	565,000	2,286,908	2,851,908	2,286,907	565,001
Wilgamuwa -Hettipola, Wilgamuwa	38.0	1,740	August 24, 2009	-	7,581,277	7,581,277	6,039,268	1,542,009
Agarapathana - No158, Hoolbrook, Agarapatana	10.8	1,598	August 17, 2012	-	1,260,000	1,260,000	719,999	540,001
Naula- 26,Dambulla Road,Naula	20.0	1,640	February 25, 1998	2,471,252	8,600,539	11,071,791	4,301,189	6,770,602
Laggala-New Town -Laggala	40.0	3,261		-	23,565,250	23,565,250	5,407,095	18,158,155
<b>North Central Province</b>						-		-
Mihinthale - Trincomalee Road, Mihinthale	20.0	6,359	December 30, 2005	0	8,859,427	8,859,427	7,965,314.00	894,113
Medawachchiya - Mannar Road, Madawachchiya	34.0	4,371	March 19, 2013	-	16,192,223	16,192,223	8,905,722.65	7,286,500
Galenbidunuwewa - Pola Road, Galenbidunuwewa	70.0	1,687	March 14, 2013	-	5,820,073	5,820,073	3,025,164.55	2,794,908
Medirigiriya - Main Street, Madirigiriya	40.0	-	December 31, 2007	-	9,643,650	9,643,650	7,723,563.60	1,920,087
Siripura - New Town, Siripura	30.0	4,973	February 24, 2016	-	22,291,625	22,291,625	8,752,203.74	13,539,422
Thirappane - Kandy Road, Thirappane	65.4	8,030	December 8, 2016	379,869.25	46,150,602	46,530,472	12,272,800.09	34,257,671
No.343,Mosque Road,Stage 01,Anuradhapura					125,000	125,000	31,250.00	93,750
<b>North Western Province</b>						-	-	-
Mawathagama - Kandy Road, Mawathagama	21.5	-	March 3, 2016	10,801,311		10,801,311	-	10,801,311
P/O Kurunegala - No 155, Negombo Rd, Kurunegala	14.0	8,484	December 29, 2004	-	18,227,912	18,227,912	11,536,423.06	6,691,489
Polpithigama - Kurunegala Road,Polpithigama	20.0	2,784	December 30, 2014	-	16,782,785	16,782,785	7,364,469.28	9,418,316
Mampuri - Kalpitiya Road, Mampuri	80.0	15,181	December 30, 2014	-	25,188,128	25,188,128	11,155,754.37	14,032,374
Palakuda - Kalpiti Road, Thalawila	20.3	2,244	March 25, 2003	-	5,792,157	5,792,157	4,061,528.73	1,730,629
Nattandiya - Marawila Road, Naththandiya	15.7	1,200	February 11, 2003	-	36,799,082	36,799,082	9,351,389.12	27,447,693
Wariyapola-No 29/4,Adhikari Mawatha,Wariyapola.	10.0	6,208	November 12, 2013	-	35,609,963	35,609,963	13,488,316.20	22,121,647
29/4 Adikari Mawatha, Wariyapola - District office	17.3	-	July 2, 2023	9,586,744	-	9,586,744	-	9,586,744
Puttalm 618/Puttlam South - Lease hold Building	51.0			7,321,062	-	7,321,062	317,663.87	7,003,398
<b>Southern Province</b>						-	-	-
Kekanadura - Weherahena Rd, Kekanadura	12.0	1,704	May 10, 2004	1,418,000	1,194,535	2,612,535	1,074,809	1,537,726
Akmeemana - Ganegoda, Akmeemana	6.5	1,614	October 2, 1993	-	1,039,150	1,039,150	602,285	436,865
Galle Branch - No 301, Matara rd, Magalle, Galle	30.0	1,224	October 9, 1999	-	8,894,553	8,894,553	4,235,119	4,659,434
Katuwana - Uda Gomadiya Road, Katuwana	39.1	3,150	March 22, 2001	1,320,000	7,406,958	8,726,958	6,664,571	2,062,387
Tangalle - 81, Beliatta Road, Tangalle	16.0	1,200	May 5, 2005	1,620,667	1,675,534	3,296,201	1,675,533	1,620,668
Uragasmanhandiya - Kosgoda Road,Uragasmanhandiya	20.0	1,940	April 10, 2012	-	13,354,618	13,354,618	7,162,100	6,192,518
Ambalantota - 139,Hambantota Road,Ambalantota	25.0	2,568	August 30, 2004	2,000,000	3,070,100	5,070,100	2,762,389	2,307,711
Agunakolapelessa,Ranna Road,Agunakolapelessa	12.0	2,371	August 27, 2001	-	3,470,348	3,470,348	2,582,774	887,574
D/O Galle - No 301, Matara rd, Magalle, Galle	30.0	2,000	October 8, 1999	1,750,000	4,884,716	6,634,716	4,117,844	2,516,872
No.01,Galwala Road,Hambantota	237.0	16,315			33,088,400	33,088,400	18,087,763	15,000,636
Thalgaswala			May 26, 2022	3,004,320		3,004,320	-	3,004,320
<b>Uva Province</b>						-	-	-
Girandurukotte - Development Centre,Girandurukotte	10.1	1,661	November 30, 2011		3,227,674.2	3,227,674	2,008,302	1,219,372
Monaragal D/O-Monaragala Road,Buttala.	34.0	1,706	October 22, 1999	3,162,263		3,162,263	2,921,157	241,106
Bandarawela Lease hold Premises	7.7		February 18, 2013	1,150,000	-	1,150,000	-	1,150,000
<b>Sabaragamuwa Province</b>						-	-	-
Balangoda - No17,Rest House Approach Road,Balangoda	20.0	-	February 18, 2013	6,679,574		6,679,574	-	6,679,574
<b>Eastern Province</b>						-	-	-
Swiss Village, Batticaloa,				173,370		173,370		173,370
Clock tower junction, front of bus stand, Ampara				468,550		468,550		468,550
Eastern Province - Dehiattakandiya					5,778,419	5,778,419	556,470	5,221,949
<b>Total</b>				<b>196,936,446</b>	<b>529,149,190</b>	<b>726,085,636</b>	<b>255,277,966</b>	<b>470,807,671</b>

25 INTANGIBLE ASSETS

As at 31st December	2023 Rs.	2022 Rs.
<b>Computer Software</b>		
<b>Cost</b>		
Balance as at 1st January	368,796,128	366,809,102
Additions	106,975,432	1,987,025
Written off		
Reclassification Adjustments	(664,219)	
Disposals	-	-
Balance as at 31st December	475,107,341	368,796,128
<b>Accumulated Amortization</b>		
Balance as at 1st January	299,928,384	253,120,322
Charge for the year	62,778,029	46,808,061
Disposals	-	-
Balance as at 31st December	362,706,413	299,928,384
<b>Net book value</b>	112,400,928	68,867,744

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

26 LEASES

Leases as lessee

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

26.1 Right of Use Assets

	2023		
	Building Rs.	Motor Vehicles Rs.	Total Rs.
<b>Cost</b>			
Balance as at 1 January 2023	1,748,920,951	70,539,460	1,819,460,411
Opening balance modifications - Buildings	53,856,651	-	53,856,651
Additions and Improvements	403,126,957	-	403,126,957
<b>Balance as at 31 December 2023</b>	2,205,904,559	70,539,460	2,276,444,019
<b>Accumulated Amortization</b>			
Balance as at 1 January 2023	1,044,175,417	57,188,296	1,101,363,713
Charge for the Period	301,296,900	13,351,164	314,648,064
<b>Balance as at 31 December 2023</b>	1,345,472,317	70,539,459	1,416,011,776
<b>Net book Value as at 31 December 2023</b>	860,432,243	0	860,432,243
	2022		
	Building Rs.	Motor Vehicles Rs.	Total Rs.
<b>Cost</b>			
Balance as at 1 January 2022	1,426,641,309	51,945,919	1,478,587,228
Additions and Improvements	322,279,642	18,593,541	340,873,183
<b>Balance as at 31 December 2022</b>	1,748,920,951	70,539,460	1,819,460,411
<b>Accumulated Amortization</b>			
Balance as at 1 January 2022	773,511,982	50,794,992	824,306,973
Charge for the Period	270,663,435	6,393,304	277,056,739
<b>Balance as at 31 December 2022</b>	1,044,175,417	57,188,296	1,101,363,713
<b>Net book Value as at 31 December 2022</b>	704,745,534	13,351,164	718,096,698

26.2 Lease Liabilities

	2023		
	Building Rs.	Motor Vehicles Rs.	Total Rs.
Balance as at 1 January 2023	799,247,479	13,408,328	812,655,806
Opening balance modifications - Buildings	55,328,487	-	55,328,487
Additions	392,381,957	-	392,381,957
Accretion of Interest	39,823,332	257,672	40,081,005
Payments	(348,066,641)	(13,666,000)	(361,732,641)
<b>Balance as at 31 December 2023</b>	938,714,614	(0)	938,714,614
	2022		
	Building Rs.	Motor Vehicles Rs.	Total Rs.
Balance as at 1 January 2022	762,815,214	1,356,855	764,172,070
Opening balance modifications - Buildings		-	-
Additions	307,094,220	18,593,541	325,687,761
Accretion of Interest	49,793,001	198,181	49,991,183
Payments	(320,454,959)	(6,740,250)	(327,195,209)
<b>Balance as at 31 December 2022</b>	799,247,477	13,408,328	812,655,804

26.2.1 Maturity Analysis of Lease Liability - Contractual Undiscounted Cashflows

	2023 Rs.	2022 Rs.
Less than one year	51,397,916	48,815,297
One to five years	887,316,698	763,840,507
	938,714,614	812,655,804

26.3 Amounts Recognised in Profit or Loss

Interest on lease liability	40,081,005	49,991,183
Amortisation charge for the year	314,648,064	277,056,739
	354,729,068	327,047,922

26.4 Amounts Recognised in Statement of Cash Flows

Lease rental payments	361,732,641	327,195,209
	361,732,641	327,195,209

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2023

## 27 DEFERRED TAX ASSETS/ LIABILITIES

As at 31st December

	2023 Rs.	2022 Rs.
Deferred tax asset	(3,209,000,423)	(3,664,188,331)
Deferred tax liability	117,126,185	139,013,413
Net deferred tax (asset)/ liability	<u>(3,091,874,238)</u>	<u>(3,525,174,918)</u>

## 27.1 Amounts recognized in the Income Statement

Recognized in profit or loss	229,267,903	(2,308,254,679)
Recognized in other comprehensive income	<u>204,032,777</u>	<u>46,874,831</u>

## 27.2 Movement in deferred tax balances

2023	Net Balance as at 01st January 2023	Recognized in profit or loss	Recognized in OCI	Net Balance at 31st December 2023	Deferred Tax Asset	Deferred Tax Liability
Property, Plant and Equipment	99,661,788	(14,576,927)	-	85,084,861	-	85,084,861
Leases	39,351,625	(7,310,301)	-	32,041,324	-	32,041,324
Allowance for loan losses	(2,765,081,722)	381,469,869	-	(2,383,611,853)	(2,383,611,853)	-
Employee Benefits	(927,474,341)	(125,431,718)	204,032,777	(848,873,281)	(848,873,281)	-
Operating Lease	28,367,732	(4,883,021)	-	23,484,711	23,484,711	-
	<u>(3,525,174,918)</u>	<u>229,267,903</u>	<u>204,032,777</u>	<u>(3,091,874,238)</u>	<u>(3,209,000,423)</u>	<u>117,126,185</u>

2022	Net Balance as at 01st January 2022	Recognized in profit or loss	Recognized in OCI	Net Balance at 31st December 2022	Deferred Tax Asset	Deferred Tax Liability
Property, Plant and Equipment	91,465,510	8,196,278	-	99,661,788	-	99,661,788
Leases	109,582,764	(70,231,139)	-	39,351,625	-	39,351,625
Allowance for loan losses	(697,722,669)	(2,067,359,053)	-	(2,765,081,722)	(2,765,081,722)	-
Employee Benefits	(731,151,537)	(243,197,635)	46,874,831	(927,474,341)	(927,474,341)	-
Operating Lease	(35,969,138)	64,336,869	-	28,367,732	28,367,732	-
	<u>(1,263,795,069)</u>	<u>(2,308,254,679)</u>	<u>46,874,831</u>	<u>(3,525,174,918)</u>	<u>(3,664,188,331)</u>	<u>139,013,413</u>

**28 OTHER ASSETS****As at 31st December****2023****2022****Rs.****Rs.****Cost****Financial Assets**

Receivables

**4,463,584,210**

5,277,754,780

Deposits and Advances

**17,961,962**

18,116,724

Sundry Debtors

**52,603,841**

138,577,994

Others

**180,485,849**

583,876,453

**4,714,635,862**

6,018,325,952

**Non Financial Assets**

Prepayment

**140,330,226**

125,158,025

Others

**2,041,530,617**

1,896,047,149

Tax Receivables

**3,084,424**

3,084,424

**2,184,945,267**

2,024,289,598

**Total other assets****6,899,581,129**

8,042,615,550

**29 DUE TO BANKS****2023****2022****Rs.****Rs.**

Borrowings

**26,695,865,591**

31,220,478,612

Leasing (Note 29.1)

**96,000**

96,000

Refinance

**19,520,205,944**

16,250,132,445

**Total due to banks****46,216,167,535**

47,470,707,056

**29.1 Maturity of the leasing****As at 31st December****2023****2022****Rs.****Rs.**

Not later than 1 year

**96,000**

96,000

**96,000**

96,000

Less - Interest in suspense

**-**

-

**Total****96,000**

96,000

**30 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO OTHER CUSTOMERS****2023****2022****Rs.****Rs.**

Due to other customers

**226,079,614,772**

210,301,323,468

**Total financial liabilities at amortised cost - due to other customers****226,079,614,772**

210,301,323,468

**30.1 Analysis of financial liabilities at amortised cost - due to other customers****2023****2022****Rs.****Rs.****30.1.1 By product**

Savings deposits

**44,208,976,801**

40,472,860,914

Long term savings

**25,856,165,440**

25,379,586,421

Fixed deposits

**156,014,472,532**

144,448,876,133

**Total financial liabilities at amortised cost****226,079,614,772**

210,301,323,468

**30.1.2 By currency**

Sri Lankan rupee

**226,079,614,772**

210,301,323,468

**Total financial liabilities at amortised cost****226,079,614,772**

210,301,323,468

**30.1.3 By maturity**

Due within one year

**192,704,887,810**

153,700,366,310

Due after one year

**33,374,726,962**

56,600,957,158

**Total financial liabilities at amortised cost****226,079,614,772**

210,301,323,468

	2023 Rs.	2022 Rs.
<b>31 CURRENT TAX LIABILITIES</b>		
Balance as at 1st January	1,011,924,146	503,021,886
Current tax based on profit for the year (Note 15)	(27,437,013)	1,301,405,280
Under provision in respect of previous years (Note 15)	(170,493,912)	16,570,076
Surcharge tax	-	800,598,848
Payment of tax	(1,240,304,328)	(1,609,671,944)
<b>Balance as at 31 December</b>	<b>(426,311,106)</b>	<b>1,011,924,146</b>
<b>32 OTHER LIABILITIES</b>		
<b>Financial Liabilities</b>		
Sundry creditors	275,327,817	1,948,511,439
Other payables	4,123,117,557	3,663,600,338
Inter bank transaction in transit	1,203,121	1,662,616
Operating Lease Liability (Note 26.2)	938,714,612	812,655,804
	5,338,363,107	6,426,430,197
<b>Non Financial Liabilities</b>		
Other payables	2,537,346,035	860,174,209
Impairment provision for expected credit losses - credit related commitment and contingencies	42,061,733	6,882,856
	2,579,407,768	867,057,065
<b>Total</b>	<b>7,917,770,875</b>	<b>7,293,487,262</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2023

## 33 RETIREMENT BENEFIT OBLIGATION

As at 31 December	2023 Rs.	2022 Rs.
Retirement Benefit Obligation (Note 33.1)	<u>2,829,577,605</u>	<u>3,091,581,136</u>
	<u>2,829,577,605</u>	<u>3,091,581,136</u>

## 33.1 Net Asset /(Liability) recognized in the Statement of Financial Position

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

## 33.2 Amount Recognised in Statement of Profit or Loss

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

## 33.3 Amount Recognised in Statement of Other Comprehensive Income

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

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

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

### 33.5 Sensitivity of Assumptions Used in the Actuarial Valuation

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

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

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

### 34 STATED CAPITAL

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the bank.

### 35 STATUTORY RESERVE FUND

	2023 Rs.	2022 Rs.
Balance as at 1st January	845,247,866	777,778,133
Transfer during the period	67,819,970	67,469,733
Balance as at 31st December	<b>913,067,836</b>	<b>845,247,866</b>

**36 OTHER RESERVES**

Balance as at 31 December 2023	Opening balance as at 01 January 2023	Movement/ transfers	Closing balance as at 31 December 2023
	Rs.	Rs.	Rs.
General reserve Fund	3,569,591,213	271,279,880	3,840,871,093
Special Reserve Fund	699,638,195	67,819,970	767,458,165
<b>Total</b>	<b>4,269,229,407</b>	<b>339,099,850</b>	<b>4,608,329,256</b>

  

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



**37 RELATED PARTY DISCLOSURES**

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

**37.1 Key Management Personnel of the Bank**

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

**37.1.1 Key Management Personnel Compensation**

Key management personnel compensation comprised the following;

	2023 Rs.	2022 Rs.
Short term employment benefits	114,446,682	160,829,395
Post employment benefits	-	-
	<b>114,446,682</b>	<b>160,829,395</b>

**37.1.2 Transactions, arrangements and agreements involving KMP and their Close Family Members (CFM)**

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

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

**37.1.2.1 Terms and conditions of the accommodation granted to KMPs and their CFMs**

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

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2023

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

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

**37.2 Transactions with the Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka**

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

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

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

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

**37.2.1 Further transactions as detail below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities:**

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

**37.3 Pricing Policy with Related Parties**

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

**38 ASSETS PLEDGED AS SECURITY**

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

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

  

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

**39 CONTINGENT LIABILITIES AND COMMITMENTS**

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

These contingencies and commitments are quantified below:

<b>As at 31 December</b>	<b>2023</b>	<b>2022</b>
		Rs.
Guarantees and performance bonds	<b>366,098,463</b>	180,046,018
Other contingent items	<b>292,019,801</b>	207,216,884
Less : Impairment for expected credit losses-Guarantees	<b>(42,061,733)</b>	(10,457,706)
<b>Total</b>	<b>616,056,531</b>	376,805,196

**39.1 Analysis of Commitment and Contingency Exposure to Credit Risk**

<b>As at 31 December 2023</b>	<b>Stage 1</b>	<b>Total</b>
	Rs.	Rs.
Guarantees and performance bonds	<b>366,098,463</b>	<b>366,098,463</b>
Other contingent items	<b>292,019,801</b>	<b>292,019,801</b>
Expected Credit Loss Allowance (Note 39.1.1)	<b>(42,061,733)</b>	<b>(42,061,733)</b>
	<b>616,056,531</b>	<b>616,056,531</b>
<b>As at 31 December 2022</b>	<b>Stage 1</b>	<b>Total</b>
	Rs.	Rs.
Guarantees and performance bonds	180,046,018	180,046,018
Other contingent items	207,216,884	207,216,884
Expected Credit Loss Allowance (Note 39.1.1)	(6,882,856)	(6,882,856)
	380,380,046	380,380,046

**39.1.1 Expected Credit Loss Allowance**

	<b>2023</b>	<b>2022</b>
	Rs.	Rs.
Balance as at 1st January	<b>6,882,856</b>	3,308,006
Net Charge for the year	<b>35,178,877</b>	3,574,850
Balance as at 31st December	<b>42,061,733</b>	6,882,856

**39.2 Assessment Received by the Bank**

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

**Income Tax**

Notice of assessments issued for the year of assessment, 2017/18 LKR.1,023 Mn (0201718001), 2018/19 LKR.246 Mn. (0201819002), 2019/20 LKR.292 Mn. (0201920002) and 2020/21 LKR.16.7 Mn. (0202021002) discussions are going with the authorities on for full settlement. Provisions have been constructed on the likely outcome as advised by the respective tax consultant.

**Value Added Tax**

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

**40 LITIGATIONS AGAINST THE BANK**

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

**41 EVENTS AFTER THE REPORTING DATE**

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

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2023

## 42 CURRENT VS NON CURRENT ANALYSIS

As at 31 December 2023

Assets	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Cash and cash equivalent	104,444,214	-	104,444,214
Placements with banks	6,005,330,402	-	6,005,330,402
Equity Instruments at fair value through profit or loss	145,820	-	145,820
Financial assets at amortised cost-Loans and receivables from other customers	88,522,864,760	107,248,600,097	195,771,464,857
Financial assets at amortised cost-Debt & other instruments	86,964,709,205	-	86,964,709,205
Equity Instruments at fair value through other comprehensive income	-	2,290,929	2,290,929
Property, plant and equipment	-	1,162,704,016	1,162,704,016
Intangible assets	-	112,445,885	112,445,885
Right of use assets	-	860,432,243	860,432,243
Deferred tax assets	-	3,091,874,238	3,091,874,238
Other assets	3,414,214,447	3,485,366,682	6,899,581,129
<b>Total assets</b>	<b>185,011,708,848</b>	<b>115,963,714,090</b>	<b>300,975,422,938</b>
<b>Liabilities</b>			
Due to banks	3,521,946,546	42,694,220,989	46,216,167,535
Due to other customers	166,274,427,218	59,805,187,554	226,079,614,772
Debt issued and other borrowed funds	-	-	-
Current tax liabilities	(426,311,106)	-	(426,311,106)
Other liabilities	3,732,121,974	4,185,648,900	7,917,770,875
Retirement benefit obligation	299,493,340	2,530,084,265	2,829,577,605
<b>Total liabilities</b>	<b>173,401,677,972</b>	<b>109,215,141,708</b>	<b>282,616,819,681</b>
<b>Maturity Gap</b>	<b>11,610,030,876</b>	<b>6,748,572,381</b>	<b>18,358,603,256</b>
<b>Cumulative Gap</b>	<b>11,610,030,876</b>	<b>18,358,603,257</b>	<b>-</b>

As at 31 December 2022

Assets	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Cash and cash equivalent	2,889,883,677	-	2,889,883,677
Placements with banks	6,133,705,351	-	6,133,705,351
Equity Instruments at fair value through profit or loss	120,280	-	120,280
Financial assets at amortised cost-Loans and receivables from other customers	51,925,223,135	146,082,922,020	198,008,145,155
Financial assets at amortised cost-Debt & other instruments	65,079,635,908	-	65,079,635,908
Equity Instruments at fair value through other comprehensive income	-	2,289,919	2,289,919
Property, plant and equipment	-	926,615,241	926,615,241
Intangible assets	-	68,867,744	68,867,744
Right of use assets	-	718,096,698	718,096,698
Deferred tax assets	-	3,525,174,919	3,525,174,919
Other assets	3,426,030,585	4,616,584,965	8,042,615,549
<b>Total assets</b>	<b>129,454,598,937</b>	<b>155,940,551,506</b>	<b>285,395,150,443</b>
<b>Liabilities</b>			
Due to banks	3,459,855,516	44,010,851,540	47,470,707,056
Due to other customers	151,286,336,343	59,014,987,125	210,301,323,468
Debt issued and other borrowed funds	2,000,000,000	-	2,000,000,000
Current tax liabilities	1,011,924,146	-	1,011,924,146
Other liabilities	3,732,121,974	3,561,365,287	7,293,487,261
Retirement benefit obligation	299,493,340	2,792,087,796	3,091,581,136
<b>Total liabilities</b>	<b>161,789,731,318</b>	<b>109,379,291,749</b>	<b>271,169,023,067</b>
<b>Maturity Gap</b>	<b>(32,335,132,382)</b>	<b>46,561,259,757</b>	<b>14,226,127,375</b>
<b>Cumulative Gap</b>	<b>(32,335,132,382)</b>	<b>14,226,127,376</b>	<b>-</b>

## **43 FINANCIAL RISK MANAGEMENT**

### **43.1 Introduction and Overview**

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

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

#### **43.1.1 Risk Management Framework**

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

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

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

#### **43.1.2 Asset and Liability Committee (ALCO)**

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

#### **43.1.3 Risk Measurement & Reporting**

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

#### **43.1.4 Risk Mitigation**

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

### **43.2 Credit Risk**

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

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

#### **Management of Credit Risk**

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by Heads of Credit, Board Credit Committee (Discontinued with effect from June 2021) or the Board of Directors as appropriate.

- Reviewing and assessing credit risk. Head of Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Head of Credit who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Regular audits of business units and Bank credit processes are undertaken by Internal Audit.

#### Exposure to Credit Risk

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

#### Credit Quality Analysis

##### The Bank's Delinquency status

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

#### Financial investments at amortized cost-Debt & other instruments

Quoted debentures	623,946,610	-	-	623,946,610	623,946,610	-	-	623,946,610
Government debt securities-treasury bills & bonds	60,478,658,961	-	-	60,478,658,961	4,813,547,891	-	-	4,813,547,891
Investment in fixed deposits	25,864,468,910	-	-	25,864,468,910	49,420,476,709	-	-	49,420,476,709
<b>Total debt and other instruments</b>	86,967,074,481	-	-	86,967,074,481	54,857,971,211	-	-	54,857,971,211
Expected credit loss allowance	(2,365,275)	-	-	(2,365,275)	(1,760,892)	-	-	(1,760,892)
<b>Net debt and other instruments</b>	86,964,709,206	-	-	86,964,709,206	54,856,210,319	-	-	54,856,210,319

#### Placements with banks

Money market placements	6,005,330,402	-	-	6,005,330,402	6,596,072,932	-	-	6,596,072,932
<b>Total placements with banks</b>	6,005,330,402	-	-	6,005,330,402	6,596,072,932	-	-	6,596,072,932
Expected credit loss allowance	-	-	-	-	-	-	-	-
<b>Net placements with banks</b>	6,005,330,402	-	-	6,005,330,402	6,596,072,932	-	-	6,596,072,932

#### Commitments and Contingencies \*

Bank Guarantee	366,098,463	-	-	366,098,463	177,766,966	-	-	177,766,966
Bills Sent for Collection	292,019,801	-	-	292,019,801	51,429,192	-	-	51,429,192
<b>Total commitments and contingencies</b>	658,118,265	-	-	658,118,265	229,196,158	-	-	229,196,158
Expected credit loss allowance	(42,061,733)	-	-	(42,061,733)	(3,308,006)	-	-	(3,308,006)
<b>Net commitments and contingencies</b>	616,056,531	-	-	616,056,531	225,888,152	-	-	225,888,152

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

#### 43.2.1 Measurement of Expected Credit Losses (ECL)

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

##### Significant increase in Credit Risk

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

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

##### Incorporation of Forward-Looking Information

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

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

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

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

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

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

As at 31 December

Key drivers	ECL Scenario	2024	2025	2026	2027	Subsequent Years
		%	%	%	%	
<b>GDP growth %</b>						
	Base Case	1.60%	1.60%	1.60%	1.60%	1.60%
	Best Case	3.50%	4.10%	4.60%	5.20%	5.60%
	Worse Case	2.10%	2.20%	2.30%	2.30%	2.30%
<b>Inflation Rates %</b>						
	Base Case	4.00%	4.00%	4.00%	4.00%	4.00%
	Best Case	2.60%	2.60%	2.60%	2.60%	2.60%
	Worse Case	5.50%	7.00%	8.90%	11.20%	13.10%
<b>Interest Rate %</b>						
	Base Case	13.10%	13.10%	13.10%	13.10%	13.10%
	Best Case	12.00%	11.70%	11.30%	11.00%	10.50%
	Worse Case	13.90%	14.60%	15.20%	15.90%	16.40%
<b>Exchange rates (USD \$ to LKR)</b>						
	Base Case	350.00	350.00	350.00	350.00	350.00
	Best Case	288.96	257.77	229.95	205.13	182.99
	Worse Case	350.00	350.00	350.00	350.00	350.00
<b>Unemployment rates %</b>						
	Base Case	4.70%	4.70%	4.70%	4.70%	4.70%
	Best Case	4.60%	4.60%	4.60%	4.60%	4.60%
	Worse Case	4.70%	4.80%	4.80%	4.80%	4.80%



Measurement of ECL

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

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

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

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

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

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

Treasury, trading and interbank relationships

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

Sector classification of loans

The loan classification of the bank for reporting purpose has been incorporated as per the sectorial classification of Central Bank of Sri Lanka.

Of the total sector classification, this report categorized them in top major sectors, in accordance to the size of the portfolios.

The highest sector under this classification as per the banks closing books, 2023 is the Housing Loan followed by Refinance, Commercial, Agriculture, Pawning, Industrial, and Other Loans, Loans against deposits, Staff loans, Leasing, SME, Liya Isura Loans.

Sector wise portfolios	Rs.
Term Loan - Housing	44,177,471,509
Refinance	38,304,291,721
Term Loan - Commercial	23,289,273,791
Term Loan - Agriculture	18,041,264,159
Pawning	45,600,279,410
Term Loan - Industrial	13,700,276,184
Term Loan - Other	6,688,032,365
Loan Against Deposit	14,054,296,935
Staff	5,864,348,559
Leasing	1,026,138,541
SME	118,110,361
Liya Isura	30,638,070

**Corporate loans (Services, Manufacturing and Industry loans)**

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

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties are captured, which includes information provided by Credit Information Bureau. This includes external rating grades issued by rating agencies, independent analyst reports, press releases and articles, which contains relevant information of clients/industry and applicable to the credit analysis and decision making processes.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

**Consumer lending and retail loans**

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

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

**Grouping financial assets measured on a collective basis**

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

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

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

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

- Product Type
- Interest Rate

43.2.2 Collateral held and Other Credit Enhancements

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, inventories and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated regularly. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Definition of Past Due

Banks consider that any amounts uncollected thirty one days or more beyond their contractual due date are ‘past due’.

An estimate made at the time of borrowing of the fair value of collateral and other security enhancements held against loans and advances to customers is given below and the value of collateral has been restricted to the value of the loans outstanding balances.

<i>As at 31 December</i>	2023 Rs.	2022 Rs.
<b>Collateral Type</b>		
Land & Buildings	28,705,668,268	27,770,254,509
Machinery	901,920,842	1,281,765,425
Motor Vehicles	748,453,403	2,518,646,804
Gold	45,605,107,198	42,217,210,774
Fixed Deposits	14,327,361,268	10,333,536,604
Personal Guarantees	112,964,945,642	117,387,564,475
Bank Guarantees	500,448	756,422
Others	12,042,309,654	13,862,766,869
	<u>215,296,266,722</u>	<u>215,372,501,881</u>

<i>As at 31 December</i>	2023 Maximum Exposure to Credit Risk Rs.	Exposure Net of Collateral Rs.	2022 Maximum Exposure to Credit Risk Rs.	Exposure Net of Collateral Rs.
Cash and cash equivalent	104,444,214	104,444,214	2,889,883,677	2,889,883,677
Placements with Banks	6,005,330,402	6,005,330,402	6,133,705,351	6,133,705,351
Equity Instruments at fair value through profit or loss	145,820	145,820	120,280	120,280
Financial assets at amortised cost-Loans and receivables from other customers	215,296,266,722	186,062,148,016	215,372,501,881	131,251,087,765
Financial investments at amortised cost-Debt & other instruments	86,964,709,205	86,964,709,205	65,079,635,909	65,079,635,908
Equity Instruments at fair value through profit or loss	2,290,929	2,290,929	2,289,919	2,289,919
Other assets	4,714,635,862	4,714,635,862	6,018,325,952	6,018,325,952

<i>As at 31 December</i>	Forced Sale Value of Foreclosed Collateral	
<b>Foreclosed Properties</b>	2023	2022
	Rs.	Rs.
Balance as at 01 January	165,450,000	165,450,000
Additions during the year	15,230,145	-
Disposals during the year	-	-
Valuation changes	-	-
<b>Balance as at 31 December</b>	<u>180,680,145</u>	<u>165,450,000</u>

The Bank’s policy is to pursue timely realisation of the collateral in an orderly manner.

Loan-to-value ratio (LTV)

Residential Mortgage lending

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes adjustment for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

<i>As at 31 December</i>	2023 Rs.	2022 Rs.
<b>LTV ratio</b>		
Less than 50%	12,800,091,156	28,440,620,295
51-70%	4,388,489,979	-
71-90%	888,656,046	-
91-100%	9,369,892,053	-
More than 100%	1,258,539,035	-
<b>Total</b>	<u>28,705,668,268</u>	<u>28,440,620,295</u>

### 43.2.3 Concentration of Credit risk

The Bank monitors concentrations of credit risk by industry and by geographic location.

#### Concentrations of credit risk

An analysis of concentrations of credit risk for loans and advances, lending commitments, financial guarantees and investment securities is shown below.

	Loans and Advances to Customers		Investment debt securities		Lending commitments and financial guarantees	
	2023	2022	2023	2022	2023	2022
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Carrying amount	215,296,266,722	215,372,501,881	86,967,074,481	65,082,462,630	658,118,265	387,262,902
<b>Amounts committed/ guaranteed</b>						
<b>Concentration by sector</b>						
<b>Corporate:</b>						
Other	-	-	-	-	658,118,265	387,262,902
Government	-	-	60,478,658,961	11,487,849,406	-	-
Banks	-	-	26,488,415,520	53,594,613,224	-	-
<b>Retail:</b>						
Personal Guarantee	112,964,945,642	117,387,564,475	-	-	-	-
Mortgages	90,289,011,426	84,122,170,538	-	-	-	-
Unsecured lending	12,042,309,654	13,862,766,869	-	-	-	-
	<u>215,296,266,722</u>	<u>215,372,501,881</u>	<u>86,967,074,481</u>	<u>65,082,462,630</u>	<u>658,118,265</u>	<u>387,262,902</u>
	-	-	-	-	-	-

### 43.3 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Hence the bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

#### Management of Liquidity Risk

The Bank sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Bank's liquidity policies and procedures. Central Treasury manages the Bank's liquidity position on a day-to-day basis and reviews daily reports. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows.

- \* Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- \* Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- \* Monitoring liquid ratios, maturity mismatches, behavioral characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- \* Carrying out stress testing of the Bank's liquidity position.

The most important of these is to maintain the minimum 20% liquid assets ratio to meet the regulatory requirement. Liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale.

### 43.3.1 Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to deposits from customers and other liabilities. For this purpose liquid assets are considered as including cash and cash equivalents and investment for which there is an active and liquid market. A similar calculation is used to measure the Bank's compliance with the liquidity limit established by the, Central Bank of Sri Lanka. Details of the reported Bank ratio of net liquid assets to liabilities from customers at the reporting date and during the year were as follows:

	2023 DBU %	2022 DBU %
At 31 December	38.73%	27.83%
Average for the year	33.30%	27.16%
Maximum for the year	29.78%	29.78%
Minimum for the year	38.73%	25.10%

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## 43.3.2 Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial liabilities as at 31 December 2023. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

## As at 31 December 2023

	Carrying Value	Total	Less than 3 months	3 to 12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Non - Derivative Liabilities</b>							
Due to banks	46,216,167,535	46,216,167,535	779,887,727	2,742,058,819	5,483,925,638	13,849,520,901	23,360,774,450
Due to other customers	226,079,614,772	226,079,614,772	56,226,684,689	110,047,742,530	11,643,421,155	16,465,228,165	31,696,538,235
Other liabilities	7,917,770,875	7,916,439,056	949,824,761	1,161,735,933	1,702,442,543	2,621,499,289	1,480,936,529
<b>Total Non - Derivative Liabilities</b>	<b>280,213,553,183</b>	<b>280,212,221,363</b>	<b>57,956,397,177</b>	<b>113,951,537,282</b>	<b>18,829,789,337</b>	<b>32,936,248,354</b>	<b>56,538,249,214</b>

## As at 31 December 2022

	Carrying Value	Total	Less than 3 months	3 to 12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Non - Derivative Liabilities</b>							
Due to banks	47,470,707,056	47,470,707,056	341,729,856	3,118,125,660	4,440,243,697	14,000,065,209	25,570,542,634
Due to other customers	210,301,323,468	210,301,323,468	39,028,814,697	112,257,521,646	11,660,479,038	15,939,669,814	31,414,838,273
Debt issued and other borrowed funds	-	2,076,176,663	2,076,176,663	-	-	-	-
Other liabilities	7,293,487,262	8,804,727,995	1,713,880,930	2,363,638,596	2,110,610,176	1,135,661,764	1,480,936,529
<b>Total Non - Derivative Liabilities</b>	<b>265,065,517,787</b>	<b>268,652,935,183</b>	<b>43,160,602,145</b>	<b>117,739,285,903</b>	<b>18,211,332,912</b>	<b>31,075,396,787</b>	<b>58,466,317,437</b>

43.3.3 Contractual Maturities of Commitments and Contingencies

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31 December 2023						
Contingent Liabilities	On Demand	Less than 3	3 to 12	1 to 5	Over 5	Total
	Rs.	Months	Months	Years	Years	Rs.
Bank guarantee (without impairment)		1,416,330	338,030,015	26,652,118	-	366,098,463
Other Contingent items-Bills sent for collection	292,019,801	-	-	-	-	292,019,801
<b>Total Contingent Liabilities</b>	<b>292,019,801</b>	<b>1,416,330</b>	<b>338,030,015</b>	<b>26,652,118</b>	<b>-</b>	<b>658,118,265</b>

  

As at 31 December 2022						
Contingent Liabilities	On Demand	Less than 3	3 to 12	1 to 5	Over 5	Total
	Rs.	Months	Months	Years	Years	Rs.
Bank guarantee (without impairment)		696,547	166,242,048	13,107,424	-	180,046,018
Other Contingent items-Bills sent for collection	207,216,884	-	-	-	-	207,216,884
<b>Total Contingent Liabilities</b>	<b>207,216,884</b>	<b>696,547</b>	<b>166,242,048</b>	<b>13,107,424</b>	<b>-</b>	<b>387,262,902</b>

43.3.4 Liquidity Reserve

The table below sets out the components of Bank's liquid assets that are held for the liquidity purpose.

	2023	
	Carrying Amount	Fair Value
Cash and Cash equivalents	104,444,214	104,444,214
Placements with banks	3,080,330,402	3,080,330,402
Repo	2,925,000,000	2,925,000,000
Fixed Deposits	25,864,468,910	25,864,468,910
	<b>31,974,243,526</b>	<b>31,974,243,526</b>

\* The carrying amounts approximate their fair values as they are short term in nature (less than twelve months).

43.3.5 Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) as defined by the regulator is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30 day period. The ratio is defined as the amount of High Quality Liquid Assets (HQLA) that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both actual and contingent exposures, in a stressed scenario.

The LCR complements the Bank's stress testing framework. By maintaining a ratio in excess of minimum regulatory requirements, the LCR seeks to ensure that the Bank holds adequate liquidity resources to mitigate a short-term liquidity stress.

Commencing from 1 April 2015, all licensed specialised banks maintained Liquidity Coverage Ratios (LCR) as prescribed by CBSL in respect of Rupee Liquidity Minimum Requirement for local currency operations and All Currency Liquidity Minimum Requirement for the overall operations effective from 1 January 2019 onwards 100%.

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in May 2020 due to the COVID- 19 pandemic situation minimum requirement of Liquidity Coverage Ratio was reduced to 90% up to 31 December 2023 with enhanced supervision and frequent reporting.

Minimum Requirement (%) - effective from		
1 July 2021	May 2020 to 31 December 2023	
100	90	

The following were the Liquidity Coverage Ratios (%) of the Bank as at 31 December:	<b>2023</b>	2022
Rupee Liquidity Requirement for Local Currency Operations	<b>976</b>	167

43.3.6 Statutory Liquid Assets Ratio

<b>For the month of December 2023</b>	<b>38.73%</b>
For the month of December 2022	27.83%

43.3.7 Due to Banks & Due to Other Customers (Deposits) to Loans and Receivables from Banks & Other Customers (Advances) Ratio

The Bank is aware of the importance of due to banks & other customers as a source of funds for its lending operations.

This is monitored using the following ratio, which compares loans and receivables to customers as a percentage of due to banks & Due to other customers (Deposits).

Due to banks & due to other customers to Loans and receivables from banks & other customers Ratio.

<b>As at 31st December 2023</b>	<b>86.58%</b>
As at 31st December 2022	95.81%

The table below sets out the availability of financial and non-financial assets held by the Bank on the basis of being encumbered or unencumbered as of 31.12.2023 and 31.12.2022.

	2023				2022			
	Encumbered		Unencumbered		Encumbered		Unencumbered	
	Pledged as collateral	Other	Other	Total	Pledged as collateral	Other	Other	Total
Cash and cash equivalent	-	-	104,444,214	104,444,214	-	-	2,889,883,677	2,889,883,677
Placements with banks	-	-	6,005,330,402	6,005,330,402	-	-	6,133,705,351	6,133,705,351
Equity Instruments at fair value through profit or loss	-	-	145,820	145,820	-	-	120,280	120,280
Financial assets at amortised cost- Loans and receivables from other customers	-	-	195,771,464,857	195,771,464,857	-	-	198,008,145,155	198,008,145,155
Financial assets at amortised cost- Debt & other instruments	1,593,912,059	-	85,370,797,145	86,964,709,205	1,347,726,270	-	63,731,909,638	65,079,635,908
Equity Instruments at fair value through other comprehensive income	-	-	2,290,929	2,290,929	-	-	2,289,919	2,289,919
Other assets	-	-	6,899,581,129	6,899,581,129	-	-	8,042,615,550	8,042,615,550
<b>Total</b>	<b>1,593,912,059</b>	<b>-</b>	<b>294,154,054,496</b>	<b>295,747,966,556</b>	<b>1,347,726,270</b>	<b>-</b>	<b>278,808,669,570</b>	<b>280,156,395,840</b>

#### 43.4 Market Risk

Market risk' is the risk that changes in market prices - such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to the changes in the obligator's/ issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the bank's solvency while optimizing the return on risk.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios.

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

As at 31st December 2023	Carrying amount	Market risk measure	
		Trading portfolios	Non-trading portfolios
Assets subject to Market risk			
Cash and cash equivalent	104,444,214	-	104,444,214
Placements with banks	6,005,330,402	-	6,005,330,402
Equity Instruments at fair value through profit or loss	145,820	145,820	-
Financial investments at amortised cost-Debt & other instruments	86,964,709,205	-	86,964,709,205
Financial assets at amortised cost-Loans and receivables from other customers	195,771,464,857	-	195,771,464,857
Equity Instruments at fair value through other comprehensive income	2,290,929	-	2,290,929
Other assets	4,714,635,862	-	4,714,635,862
Liabilities subject to Market risk			
Due to banks	46,216,167,535	-	46,216,167,535
Due to other customers	226,079,614,772	-	226,079,614,772
Debt issued and other borrowed funds	-	-	-
Current tax liabilities	(426,311,106)	-	(426,311,106)
Other liabilities	5,338,363,107	-	5,338,363,107
As at 31st December 2022	Carrying amount	Market risk measure	
		Trading portfolios	Non-trading portfolios
Assets subject to Market risk			
Cash and cash equivalent	2,889,883,677	-	2,889,883,677
Placements with banks	6,133,705,351	-	6,133,705,351
Equity Instruments at fair value through profit or loss	120,280	120,280	-
Financial investments at amortised cost-Debt & other instruments	65,079,635,908	-	65,079,635,908
Financial assets at amortised cost-Loans and receivables from other customers	198,008,145,155	-	198,008,145,155
Equity Instruments at fair value through other comprehensive income	2,289,919	-	2,289,919
Other assets	6,018,325,952	-	6,018,325,952
Liabilities subject to Market risk			
Due to banks	47,470,707,056	-	47,470,707,056
Due to other customers	210,301,323,468	-	210,301,323,468
Debt issued and other borrowed funds	-	-	-
Current tax liabilities	1,011,924,146	-	1,011,924,146
Other liabilities	6,426,430,198	-	6,426,430,198

#### Management of Market Risk

Market risk management reporting creates transparency on the risk profile and facilitates the understanding of core market risk drivers to all levels of the Bank. The Management and Board Committees receive regular reporting, as well as ad hoc reporting as required, on market risk, the impact on capital and earnings through stress testing. The Operation Risk Management Committee (ORMC) and Asset and Liability Committee (ALCO) receive risk information at a number of frequencies, including monthly and quarterly.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Bank's Treasury Department, and include positions arising from market making and also held with a view to earn a profit of financial assets and liabilities that are managed on a fair value basis.

The Bank employs a range of tools to monitor and limit market risk exposures.

#### Non - Trading Market Risk

Non trading market risk arises primarily from outside the activities of our trading units, in our banking book and from certain off-balance sheet items. Significant market risk factors the Bank is exposed to and are overseen by risk management committees are:

- Interest rate risk (including risk from embedded optionality and changes in behavioural patterns for certain product types)
- Market risks from off-balance sheet items such as foreign exchange risk of the hedging instruments such as SWAPs.

#### 43.4.1 Interest Rate Risk

Interest rate risk is the potential impact on the Bank's earnings and net asset values due to changes in market interest rates. Interest rate risk arises when the Bank's principal and interest cash flows (including final maturities), both on and off balance sheet, have mismatched re-pricing dates. The amount of risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. The Bank's lending, funding, and investment activities give rise to interest rate risk.

Interest rate risk management is conducted within the context of a comprehensive business strategy. The bank has developed and implemented effective and comprehensive procedures to manage and control interest rate risk in accordance with the strategies in managing interest rate risk. These procedures are in accordance to the size and complexity of the Bank's interest rate risk-taking activities.

The Bank manages interest rate risk through the re-pricing maturity mis-match gaps by using Funds Transfer Pricing (FTP) techniques to take advantage in optimal gains. Through the FTP, portfolios are hedged; through this approach the Bank ensures that interest rate risk between lending and funding in each time bucket remains low. The majority of the Bank's interest rate risk, therefore, stems from the unhedged portion of assets and liabilities.

Typically interest rate risk is split into two components: traded interest rate risk and non-traded interest rate risk. While the traded interest rate risk is relevant to trading activities and its affects, the latter is often referred to as interest rate risk on the balance sheet or to the banking book and arises from the Bank's core banking activities.

**Interest Rate Risk in the Banking Book (IRRBB)**

Interest rate risk in the banking book is the risk to both the Bank's capital and earnings, arising from movements in interest rates, which affect the banking book exposures. This includes maturity mis-matches of the interest bearing assets and liabilities which describes the impact of relative changes in interest rates for financial instruments that are priced using different interest rate curves.

Interest rate risk is also the risk that the Bank will experience in deterioration in its financial positions as interest rates move over time.

The interest rate position of the Bank is that the duration of the liabilities to some extent is lesser than the duration of the assets in the shorter tenors of the reprising profile. Given this mismatch, under normal circumstances increasing interest rates will have a negative impact on the interest income of the Bank. On the other hand, as liabilities re-price more quickly than assets, the average interest rates paid on liabilities would adapt more quickly to lower market interest rates. This would then support the Bank's net interest income.

During the current year as well as the preceding year banking industry faced unprecedented challenges as a result of fiscal and monetary stimulus. Due to the spread of the pandemic it was increasingly becoming evident that the domestic economic activities during the year 2023, was affected due to uncertainty and the various policies and regulations which were put into place from time to time to mitigate the adverseness of the economic conditions.

In this sense the Bank manages the Interest Rate Risk in the Banking Book (IRRBB) exposures using both Earnings at Risk (EAR) and Economic Value of Equity (EVE) measures. The Treasury division is delegated to manage the interest rate risk centrally on an ongoing basis, where Risk Management Unit acts as the second line of defence on an independent oversight function.

Economic value based measures look at the change in economic value of banking book of assets, liabilities and off-balance sheet exposures resulting from interest rate movements, independent of the accounting treatment. Thereby the Bank measures the change in Economic Value of Equity (EVE) of the banking book under standard scenarios for the ICAPP process as defined by Basel Committee on Banking Supervision.

Earnings-based measures look at the expected change in Net Interest Income (NII), compared to some defined benchmark scenarios, over a defined time horizon resulting from interest rate movements. Thereby the Bank measures the sensitivity of the Bank's interest sensitive assets and liabilities to a parallel shift to various interest rate scenarios.



#### 43.4.2 Maturity Gaps

The Management and Board defines the liquidity and funding risk strategy for the Bank, as well as the risk appetite, based on recommendations made by the Risk Committee. At least annually the Board Risk Management Committee reviews and approves the limits which are applied to the Bank to measure and control liquidity risk as well as our long-term funding plan.

While such risk monitoring is mainly based on the stock approach through ratios and risk levels approved as per the risk appetite of the Bank, another method of managing and monitoring liquidity risk is using the flow approach tools which is the popular maturity mis-match or Maturity Gap analysis.

A summary of the Bank's total assets and liabilities as at 31 December 2022, based on the remaining period at the reporting date to the respective Cash flow/ Maturity dates together with the maturity gaps are given below.

As at 31 December 2023	Carrying amount Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.
<b>Interest Earning Assets</b>					
Cash and balances with central bank	104,444,214	104,444,214	-	-	-
Placements with banks	6,005,330,402	6,005,330,402	-	-	-
Equity Instruments at fair value through profit or loss	145,820	145,820	-	-	-
Financial assets at amortised cost-Loans and receivables from other customers	215,296,266,722	20,765,534,350	68,158,625,869	88,021,524,268	38,350,582,235
Financial investments at amortised cost-Debt & other instruments	86,967,074,481	59,378,523,219	21,592,753,413	4,839,992,610	1,155,805,239
Financial assets-fair value through other comprehensive income	2,290,929	-	-	-	2,290,929
<b>Total Assets</b>	<b>308,375,552,568</b>	<b>86,253,978,005</b>	<b>89,751,379,282</b>	<b>92,861,516,878</b>	<b>39,508,678,403</b>
<b>Interest Bearing Liabilities</b>					
Due to banks	46,216,167,535	779,887,727	2,742,058,819	19,333,446,539	23,360,774,450
Due to other customers	226,079,614,772	56,226,684,689	110,047,742,530	28,108,649,320	31,696,538,235
<b>Total Liabilities</b>	<b>272,295,782,307</b>	<b>57,006,572,415</b>	<b>112,789,801,349</b>	<b>47,442,095,859</b>	<b>55,057,312,684</b>
<b>Gaps</b>	<b>36,079,770,261</b>	<b>29,247,405,590</b>	<b>(23,038,422,066)</b>	<b>45,419,421,019</b>	<b>(15,548,634,281)</b>
<b>As at 31 December 2022</b>					
<b>Interest Earning Assets</b>					
Cash and balances with central bank	2,889,883,677	2,889,883,677	-	-	-
Placements with banks	6,133,705,351	6,133,705,351	-	-	-
Equity Instruments at fair value through profit or loss	120,280	120,280	-	-	-
Financial assets at amortised cost-Loans and receivables from other customers	215,372,501,881	20,765,534,350	68,158,625,869	88,021,524,268	38,426,817,393
Financial investments at amortised cost-Debt & other instruments	65,082,462,630	36,189,771,645	22,925,323,999	4,858,812,738	1,108,554,248
Financial assets-fair value through other comprehensive income	2,289,919	-	-	-	2,289,919
<b>Total Assets</b>	<b>289,480,963,738</b>	<b>65,979,015,303</b>	<b>91,083,949,869</b>	<b>92,880,337,006</b>	<b>39,537,661,560</b>
<b>Interest Bearing Liabilities</b>					
Due to banks	47,470,707,056	341,729,856	3,118,125,660	18,440,308,907	25,570,542,634
Due to other customers	210,301,323,468	39,028,814,697	112,257,521,646	27,600,148,852	31,414,838,273
Debt issued and other borrowed funds	2,000,000,000	2,000,000,000	-	-	-
<b>Total Liabilities</b>	<b>259,772,030,524</b>	<b>41,370,544,552</b>	<b>115,375,647,306</b>	<b>46,040,457,757</b>	<b>56,985,380,907</b>
<b>Gaps</b>	<b>29,708,933,214</b>	<b>24,608,470,751</b>	<b>(24,291,697,438)</b>	<b>46,839,879,249</b>	<b>(17,447,719,348)</b>

#### Interest Rate Benchmark Reforms

Interest rate benchmarks such as interbank offered rates (IBORs) play an important role in global as well as local financial markets. A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Bank has exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives globally.

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

The Bank through ALCO intends to manage its transition to alternative rates from the use of IBOR's. The contracts which have fallen due since end 2021 is re-priced at alternate rates mostly based on fixed pricing, the five US dollar LIBOR settings which will continue to be calculated using panel bank submissions until mid-2023, is used if required to re-price longer tenor advances which have frequent re-pricing dates. However, using these LIBOR's for new business is restricted from end-2021.

Going forward, RMU as a risk management functionality, will evaluate the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR. These findings will be reported to ALCO and Treasury to support the management of interest rate risk and works closely to identify operational and regulatory risks arising from these IBOR reforms and how to manage communication about IBOR reform with counterparties. These findings will be reported to BIRMC quarterly and will collaborate with other business functions as needed.

#### 43.4.3 Exposure to Other Market Risks

##### Foreign Currency Risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or equity. Bank is exposed to foreign currency risk resulting from foreign currency assets and liabilities taken over from former Lanka Puthra Development Bank and loan from Asian Development Bank. Necessary precautions are in place in order to avoid/mitigate possible foreign currency risk in the near future.

During the year, the banking sector experienced uncertainty in market situations due to the lack of foreign currency liquidity especially the US dollars. This mostly led to the banking industry being unable to meet the expected levels in liability conversion transactions especially trade related transactions. The market also experienced a drop in asset conversion transaction such as the inward remittance and export bills. This situation led to depreciation of USD/ LKR rates which was mostly a controlled exchange rate which traded around 200 to 363 levels.

The Bank ensures all market risk measures are adhered as laid down in the latest directions published by the Central Bank as well as according to best market practices followed locally and globally.

Given below are the foreign currency exposures and their rupee equivalent in the major currencies, in which the Bank trades in.

<i>As at 31 December</i>	<b>In Original Foreign Currency</b>		<b>Functional Currency of the Bank</b>	
	<b>2023</b>	2022	<b>2023</b>	2022
	<b>USD</b>	USD	<b>Rs.</b>	Rs.
<b>Net Foreign Currency Exposure</b>				
Financial assets denominated in foreign currency	<b>73,300,451</b>	68,070,895	<b>23,747,880,017</b>	24,913,947,739
Financial liabilities denominated in foreign currency	<b>62,295,743</b>	63,099,435	<b>20,182,575,095</b>	23,094,393,092

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%, 10% and 15%, for depreciation on the current exchange rate and the impact on the overall foreign currency NOP (in USD) and the impact on Income Statement is shown in the table below.

<i>As at 31 December</i>	<b>2023</b>		<b>2022</b>	
	<b>USD</b>	<b>Rs.</b>	USD	Rs.
<b>NOP</b>	<b>11,004,707</b>	<b>3,565,304,922</b>	4,971,461	1,819,554,647
<b>At Shocks Level of</b>				
	<b>Revised Rupee position</b>	<b>Effect on income statement</b>	Revised Rupee position	Effect on income statement
5%	3,743,570,168	178,265,246	1,910,532,380	90,977,732
10%	3,921,835,414	356,530,492	2,001,510,112	181,955,465
15%	4,100,100,660	534,795,738	2,092,487,844	272,933,197

#### **43.5 Operational Risk**

‘Operational risk’ is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank’s operations.

The Bank’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank’s reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The board of directors has delegated responsibility for operational risk to its Bank Operational Risk Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

#### **44 CAPITAL MANAGEMENT**

##### **44.1 Regulatory Capital**

The Bank’s lead regulator the Central Bank of Sri Lanka sets and monitors capital requirements for the Bank as a whole. The individual banking operations are directly supervised by the lead regulators. The Bank capital management goals are as follows;

- a. Ensure regulatory minimum capital adequacy of 12.5% requirements are not compromised.
- b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.
- c. Ensure above industry average Capital Adequacy Ratio for the banking sector is maintained.
- d. Ensure maintaining of quality capital.
- e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
- f. Ensure capital consumption by business actions are adequately priced.
- g. Ensure Bank’s average long-term dividend pay-out ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on solo basis. The Bank is required to comply with the provisions of the Basel II and Basel III in respect of regulatory capital.

##### **Capital Management**

Capital Adequacy is a measure of a bank’s ability to withstand the associated risks of its business. Regulators find it necessary that every bank holds adequate capital to absorb unexpected losses as a going concern, while they price their products and services to take care of expected risks. Capital Adequacy Ratio (CAR) is measured under Basel II till 30 June 2017 and thereafter Basel-III and takes into account the Credit, Market and Operations risks. Keeping with the international standards of Basel Committee on Banking Regulations and Supervisory Practices, Sri Lanka has been following Basel III CAR calculation from 1 July 2017.

#### 44.2 Capital allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk and Bank Credit, and is subject to review by the Bank Asset and Liability Management Committee (ALCO).

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

#### 44.3 Available Capital

Basel III accord recognises three capital elements, namely CET 1 Capital, Additional Tier1 Capital and Tier 2 capital.

CET 1 capital includes equity capital, reserve fund, published retained earnings (accumulated retained losses), general and other reserves, and unpublished current year's profit/ (losses) and gains reflected in OCI. Goodwill (net), other intangible assets, revaluation losses of PPE, deferred tax assets, cash flow hedge reserve, shortfall of the cumulative impairment to specific provisions, defined benefit pension fund assets, investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at CET 1 capital.

Additional Tier 1 capital includes qualifying instruments as per the regulatory directions. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Additional Tier I capital.

Tier 2 capital includes qualifying tier 2 capital instruments, revaluation gains, and general provisions etc. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Tier 2 capital.

- Every licensed specialised bank shall maintain, at all times, the minimum capital ratios prescribed in the table below and shall ensure compliance with Schedule I to the Banking Act Directions No 01 of 2016 on Capital Requirements under Basel III for licensed banks.

- Licensed specialised banks which are determined as Domestic Systemically Important Banks (D-SIBs) from time to time shall maintain Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1(CET1), as given in the table below.

<b>Components of Capital</b>	<b>Capital Adequacy Ratio to be maintained by Licensed Banks</b>	
Common Equity Tier 1 including Capital Conservation Buffer	7.00%	
Total Tier 1 including Capital Conservation Buffer	8.50%	
Total Capital Ratio including Capital Conservation Buffer	12.50%	
The Bank Capital Adequacy (Basel III) details as at 31 December 2023 are given below.		
<i>As at December</i>	<b>2023</b>	Basel III 2022
	<b>Rs.</b>	<b>Rs.</b>
<b>Assets</b>		
Total Risk Weighted Amount (including Off- Balance Sheet Items)	134,612,906,356	143,939,205,752
Risk Weighted amount of Off-Balance Sheet Exposure	183,044,933	35,609,204
<b>Capital</b>		
Common Equity Tier 1 Capital	12,188,918,712	11,932,386,377
Total Tier 1 Capital	12,188,918,712	11,932,386,377
Total Capital	22,150,038,882	21,908,992,974
<b>Capital Adequacy Ratios</b>		
Common Equity Tier 1 Capital Ratio (%)	9.05%	8.29%
Tier 1 Capital Ratio (%)	9.05%	8.29%
Total Capital Ratio (%)	16.50%	15.22%

## **45 FAIR VALUE OF FINANCIAL INSTRUMENTS**

### **45.1 Determining Fair Values**

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1 – Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3 – Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

### **45.2 Valuation Models**

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

### **45.3 Valuation Framework**

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an oversight by the Market Risk function, which is independent of front office management. Market Risk has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- \* Verification of observable pricing;
- \* Re-performance of model valuations;
- \* A review and approval process for new models and changes to models involving both product control and group market risk;
- \* Quarterly calibration and back-testing of models against observed market transactions;
- \* Analysis and investigation of significant daily valuation movements; and
- \* Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of level 3 instruments compared with the previous period.

When third party information, such as broker quotes or pricing services, is used to measure fair value, market risk assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRSs/ LKASs. This includes:

- \* Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of Financial Instrument;
- \* Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- \* When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- \* If a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

**As at 31 December**

	Level 1	Level 2	2023 Level 3	Total
	Rs.	Rs.	Rs.	Rs.
<b>Equity Instruments at fair value through profit or loss</b>	<b>145,820</b>	<b>-</b>	<b>-</b>	<b>145,820</b>
<b>Financial assets-fair value through other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>2,290,929</b>	<b>2,290,929</b>
	<b>145,820</b>	<b>-</b>	<b>2,290,929</b>	<b>2,436,749</b>

**As at 31 December**

	Level 1	Level 2	2022 Level 3	Total
	Rs.	Rs.	Rs.	Rs.
Equity Instruments at fair value through profit or loss	120,280	-	-	120,280
Financial assets-fair value through other comprehensive income	-	-	2,289,919	2,289,919
	120,280	-	2,289,919	2,410,199

**45.5 Trading assets and other assets measured at fair value**

Financial assets measured at fair value are quoted equities and unquoted equities. For quoted equities, the Bank uses quoted market price in active markets as at the reporting date. Unquoted equities are measured at cost because the fair value cannot be measured reliably.

## NOTES TO THE FINANCIAL STATEMENTS

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**45.6 Financial Instruments not measured at fair value**

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Fair value hierarchy	2023		2022	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>		<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Cash and cash equivalent	Level 2	104,444,214	104,444,214	2,889,883,677	2,889,883,677
Placements with Banks	Level 2	6,005,330,402	6,005,330,402	6,133,705,351	6,133,705,351
Financial assets at amortised cost - Debt & other instruments	Level 2	86,964,709,205	86,964,709,205	65,079,635,908	65,079,635,908
Financial assets at amortised cost - Loans and receivables from other customers					
Pawning	Level 2	45,581,579,087	45,581,579,087	42,234,452,674	42,234,452,674
Staff loans	Level 2	5,864,336,559	5,864,336,559	5,501,098,905	5,501,098,905
Short-term	Level 2	17,706,900,606	17,706,900,606	13,716,623,362	13,716,623,362
Long-term	Level 2	145,233,801,855	145,233,801,855	152,522,804,644	152,522,804,644
Other assets	Level 2	4,714,635,862	4,714,635,862	6,018,325,952	6,018,325,952
		312,175,737,790	312,175,737,790	294,096,530,472	294,096,530,472
<b>Financial liabilities</b>					
Due to banks	Level 2	46,216,167,535	46,216,167,535	47,470,707,056	47,470,707,056
Due to other customers	Level 2	226,079,614,772	226,079,614,772	210,301,323,468	210,301,323,468
Debt issued and other borrowed funds	Level 2	-	-	-	-
Other liabilities	Level 2	5,338,363,107	5,338,363,107	6,426,430,198	6,426,430,198
		277,634,145,414	277,634,145,414	264,198,460,722	264,198,460,722

**45.7 Basis of measurement for the fair value of financial assets and liabilities not carried at fair value****Assets for which fair value approximates carrying value**

For financial assets and financial liabilities that have a short-term maturity (less than one year) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to savings accounts without a specific maturity.

**Loans and Receivables to customers**

More than 36% of the total portfolio of loans and advances to customers have a remaining contractual maturity of less than one year. Therefore fair value of short term loans and advances to customers approximates to their carrying value as at the reporting date.

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognized.

**Due to Customers**

Around 68% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of pre mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

The fair value of financial investment held to maturity is estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments.