Independent Auditors' Report

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TO THE SHAREHOLDERS OF PAN ASIA BANKING CORPORATION PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Pan Asia Banking Corporation PLC ('the Bank'), which comprise the statement of financial position as at 31st December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies on pages 130 to 221.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Bank as at 31st December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How our audit addressed the key audit matter
Impairment Allowance for Loans and Advances Loans and Advances amounting to LKR 111.1billion. (Note 19), Net of Impairment Allowance of LKR 6.3 billion. (Note 19) consist of 73% of the total assets of the Bank as at 31st December 2019. The estimation of Impairment Allowance for Loans and Advances involved significant assumptions, estimates and complex manual calculations. Significant estimates and assumptions used by the management in such calculations and the basis for Impairment Allowance are disclosed in Notes 19 and 38.2 respectively. Impairment Allowance for Loans and Advances was considered a key audit matter due to the magnitude, significance of the assumptions involved.	To assess the reasonableness of the impairment charges, our audit procedures among others included the following: ▪ We evaluated design, implementation and operating effectiveness of controls over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of significant judgements, estimates and assumptions in relation to the impairment by the Board Audit Committees and management. ▪ In addition to the above, following key procedures were also performed: **For a sample of Loans and Advances individually assessed for impairment:** - We tested for a sample of loans and advances where impairment indicators existed, reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. - For loans and advances granted to customers in industries with elevated risk of credit loss, we assessed the main criteria used by the management in its assessment of expected impairment losses and reasonableness of impairment made thereof. **For Loans and Advances collectively Assessed for impairment:** - We test checked the completeness and accuracy of the underlying information and calculations thereon by agreeing details to the relevant source documents, information in IT systems and reperforming the calculations. - We also considered the reasonableness of macroeconomic and other factors used by management in their judgemental considerations for various types of loan portfolios, by comparing them with publicly available data and information sources. ▪ We assessed the adequacy of the related financial statement disclosures as set out in Notes 19 and 38.2.

Key Audit Matter	How our audit addressed the key audit matter
Preparation of financial statements inclusive of significant disclosures The Bank uses multiple IT systems in its operations. As a result, the preparations of financial statements inclusive of key disclosures are heavily dependent on information derived from such multiple systems. The process of preparing key disclosures involved generation of multiple system reports, collation, analysis and spread sheet based further calculations. Accordingly, we considered the risk of any control lapses in the preparation and presentation of financial statements and significant disclosures as a Key Audit Matter.	Our audit procedures included the following, amongst others: ▪ Understanding and evaluating of design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and collation of required information on which the significant financial statements disclosures are based. ▪ Test-checking; - the reports used to generate significant disclosures for accuracy and completeness; - source data of the reports generated from the related systems; - calculations made by management; - reasonableness of classifications made by management; ▪ Where we considered necessary, performing additional substantive audit procedures on selected disclosures.

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Other information included in the 2019 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2471.

17th February 2020
Colombo

Statement of Comprehensive Income

Year ended 31st December	Notes	2019 Rs.	2018 Rs.
Profit or Loss			
Gross Income		21,907,662,058	21,672,193,468
Interest Income		19,416,605,852	19,157,135,662
Interest Expense		(12,782,017,370)	(12,638,841,101)
Net Interest Income	5	6,634,588,482	6,518,294,561
Fee and Commission Income		1,605,877,008	1,626,409,880
Fee and Commission Expense		(60,559,052)	(106,728,749)
Net Fee and Commission Income	6	1,545,317,956	1,519,681,131
Net Gains from Trading	7	649,576,876	476,429,859
Other Operating Income	8	235,602,322	412,218,067
Total Operating Income		9,065,085,636	8,926,623,618
Impairment Charges	9	1,136,842,858	2,017,146,532
Net Operating Income		7,928,242,778	6,909,477,086
Personnel Expenses	10	1,973,309,656	1,863,074,115
Other Operating Expenses	11	2,552,253,935	2,445,747,486
Total Operating Expenses		4,525,563,591	4,308,821,601
Operating Profit Before Taxes & Levies on Financial Services		3,402,679,187	2,600,655,485
Taxes and Levies on Financial Services	12	1,088,540,188	690,998,636
Profit Before Tax		2,314,138,999	1,909,656,849
Income Tax Expense	13	563,569,904	368,014,002
Profit for the Year		1,750,569,095	1,541,642,847
Other Comprehensive Income			
Other Comprehensive Income not to be Re-classified to Profit or Loss			
Revaluation Surplus on Property, Plant and Equipment	34	455,092,963	-
Deferred Tax Effect on Above	13	(127,426,030)	-
		327,666,933	-
Actuarial Gains on Defined Benefit Plans	31	5,429,059	25,531,522
Deferred Tax Effect on Above	13	(1,520,137)	(7,148,826)
		3,908,922	18,382,696
Other Comprehensive Income for the Year Net of Tax		331,575,855	18,382,696
Total Comprehensive Income for the Year		2,082,144,950	1,560,025,543
Earnings Per Share - Basic/Diluted	14	3.96	3.48

The Accounting Policies and Notes on pages 134 to 221 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31st December	Notes	2019 Rs.	2018 Rs.
Assets			
Cash and Cash Equivalents	15	1,708,269,215	2,214,106,348
Balances with Central Bank of Sri Lanka	16	5,333,199,577	6,481,993,762
Derivative Financial Instruments	17	443,298	209,701
Financial Assets at Fair Value through Profit or Loss	18	168,176,768	11,628,595
Financial Assets at Amortised Cost			
-Loans and Advances	19	111,187,855,278	108,168,861,465
-Debt and Other Instruments	20	30,080,088,461	34,074,557,579
Financial Assets at Fair Value through Other Comprehensive Income	21	6,157,847	6,157,847
Property, Plant and Equipment	22	2,333,961,113	1,934,573,939
Right-of-Use Assets	23	911,836,800	-
Intangible Assets	24	280,851,974	305,083,081
Deferred Tax Assets	13	-	4,931,302
Other Assets	25	968,855,145	824,179,204
Total Assets		152,979,695,476	154,026,282,823
Liabilities			
Due to Banks	26	521,836,342	1,744,206,845
Derivative Financial Instruments	17	107,293	114,235
Financial Liabilities at Amortised Cost			
-Due to Depositors	27	122,544,024,040	118,627,348,744
-Due to Debt Securities holders	28	11,944,842,751	13,295,604,446
Debentures Issued	32	-	5,809,186,153
Current Tax Liabilities		752,287,378	785,735,048
Deferred Tax Liabilities	13	132,780,476	-
Other Provisions and Accruals	29	187,602,599	208,398,012
Other Liabilities	30	3,567,426,391	2,309,046,084
Total Liabilities		139,650,907,270	142,779,639,567
Equity			
Stated Capital	33	3,614,253,304	3,614,253,304
Retained Earnings		8,231,159,133	6,557,388,818
Revaluation Reserve	34	944,658,721	623,812,541
Statutory Reserve Fund	35	538,717,048	451,188,593
Total Equity		13,328,788,206	11,246,643,256
Total Liabilities and Equity		152,979,695,476	154,026,282,823
Commitments and Contingencies	42	46,999,029,226	44,169,941,089

The Accounting Policies and Notes on pages 134 to 221 form an integral part of the Financial Statements.

Certification

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Suranga Fernando
Chief Financial Officer

The Board of Directors are responsible for these Financial Statements. Signed for and on behalf of the Board by;

Dimuth Prasanna	**Sarath Rangamuwa**	**Nimal Tillekeratne**	**Nayantha Fernando**
Chairman	Deputy Chairman	Director/Chief Executive Officer	Company Secretary

17th February 2020
Colombo, Sri Lanka

Statement of Changes in Equity

	Notes	Stated Capital	Reserves			Total
		Ordinary Voting Shares	Retained Earnings	Statutory Reserve Fund	Revaluation Reserve	
		Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2018		3,614,253,304	6,050,894,180	374,106,451	630,633,294	10,669,887,229
Impact of Adopting SLFRS 9		-	(1,365,652,105)	-	-	(1,365,652,105)
Deferred Tax Impact on Above		-	382,382,589	-	-	382,382,589
Re-Stated Opening Balance Under SLFRS 9		3,614,253,304	5,067,624,664	374,106,451	630,633,294	9,686,617,713
Total Comprehensive Income for the Year						
Profit for the Year		-	1,541,642,847	-	-	1,541,642,847
Other Comprehensive Income for the Year		-	18,382,696	-	-	18,382,696
Total Comprehensive Income for the Year		-	1,560,025,543	-	-	1,560,025,543
Other Transactions						
Transfer to Statutory Reserve Fund	35	-	(77,082,142)	77,082,142	-	-
Realisation of Revaluation Reserve	34	-	6,820,753	-	(6,820,753)	-
Total Other Transactions		-	(70,261,389)	77,082,142	(6,820,753)	-
Balance as at 31st December 2018		3,614,253,304	6,557,388,818	451,188,593	623,812,541	11,246,643,256
Total Comprehensive Income for the Year						
Profit for the Year		-	1,750,569,095	-	-	1,750,569,095
Other Comprehensive Income for the Year		-	3,908,922	-	327,666,933	331,575,855
Total Comprehensive Income for the Year		-	1,754,478,017	-	327,666,933	2,082,144,950
Other Transactions						
Transfer to Statutory Reserve Fund	35	-	(87,528,455)	87,528,455	-	-
Realisation of Revaluation Reserve	34	-	6,820,753	-	(6,820,753)	-
Total Other Transactions		-	(80,707,702)	87,528,455	(6,820,753)	-
Balance as at 31st December 2019		3,614,253,304	8,231,159,133	538,717,048	944,658,721	13,328,788,206

The Accounting Policies and Notes on pages 134 to 221 form an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31st December	Notes	2019 Rs.	2018 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		2,314,138,999	1,909,656,849
Adjustments for:			
Other Non Cash Items Included in Profit Before Tax	40	1,602,000,804	2,275,561,692
Change in Operating Assets	40	608,163,535	(18,619,190,241)
Change in Operating Liabilities	40	2,363,146,342	14,268,920,225
Interest Expense on Debentures	5	454,862,881	668,258,236
Interest Expense on Lease Liabilities	5	101,630,636	-
Interest Expense on Term Borrowings		847,112,868	738,304,432
Defined Benefit Plan Costs Paid	31	(25,359,850)	(27,834,345)
Income Tax Paid		(588,251,962)	(393,052,344)
Net Cash Flows from Operating Activities		7,677,444,253	820,624,504
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	22	(98,326,479)	(104,737,826)
Proceeds from the Sale of Property, Plant and Equipment		776,810	2,798,352
Purchase of Intangible Assets	24	(13,207,997)	(55,063,651)
Net Cash Flows Used In Investing Activities		(110,757,666)	(157,003,125)
Cash Flows from Financing Activities			
Proceeds from Term Borrowings	28	362,760,000	2,870,094,225
Redemption of Debentures	32	(5,690,855,300)	(1,309,144,700)
Repayment of Term Borrowings	28	(1,000,000,000)	(500,000,000)
Interest Paid on Debentures		(573,193,734)	(703,260,306)
Interest Paid on Term Borrowings		(861,852,688)	(709,613,002)
Repayment of Principal Portion of Lease Liabilities		(206,370,814)	-
Interest Paid on Lease Liabilities		(101,630,636)	-
Net Cash Flows Used In Financing Activities		(8,071,143,172)	(351,923,783)
Net Increase/(Decrease) in Cash and Cash Equivalents		(504,456,585)	311,697,596
Cash and Cash Equivalents at 1st January	40	2,214,106,348	1,902,408,752
Cash and Cash Equivalents at 31st December		1,709,649,763	2,214,106,348

The Accounting Policies and Notes on pages 134 to 221 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 Reporting Entity

Pan Asia Banking Corporation PLC ("the Bank") is a public quoted company incorporated on 6th March 1995 with a limited liability and domiciled in Sri Lanka. It is a Licensed Commercial Bank registered under Banking Act No. 33 of 1988 and amendments thereto. The registered office of the Bank is situated at No. 450, Galle Road, Colombo 03. The staff strength of the Bank as at 31st December 2019 is 1,629 (2018:1,497). The Ordinary Voting Shares of the Bank have a listing on the Colombo Stock Exchange. The Bank does not have an identifiable parent of its own. Further, the Bank does not hold any investments in the form of subsidiary, joint venture or associate.

1.2 Principal Activities and Nature of Operations

The principal activities of the Bank continued to be Banking and related activities such as accepting deposits, personal banking, trade financing, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease and hire purchase financing, pawning and gold loans, issuing of local and international credit cards, tele-banking facilities, internet and SMS Banking.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Bank for the year ended 31st December 2019 have been prepared in accordance with Sri Lanka Accounting Standards comprising LKASs and SLFRSs as issued by the Institute of Chartered Accountants of Sri Lanka and comply with requirements of Companies Act No.7 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. The Financial Statements includes Statement of Financial Position, Statement of Comprehensive Income (Profit or Loss and Other Comprehensive Income), Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements.

2.2 Basis of Measurement

The Financial Statements have been prepared on a historical cost basis, except for Financial Assets at Fair Value through Profit or Loss, Financial Assets at Fair Value through Other Comprehensive Income (FVOCI), Derivative Financial Instruments at fair value, Defined Benefit Obligations actuarially valued and Freehold Land and Building stated at revalued amounts which are the fair values at the date of revaluation as explained in Note 22 to the Financial Statements, all of which have been measured at fair value. The Financial Statements are presented in Sri Lankan Rupees except when otherwise indicated.

2.3 Responsibility for Financial Statements

The Board of Directors is responsible for the Financial Statements of the Bank as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

2.4 Approval of Financial Statements by Directors

The Financial Statements for the year ended 31st December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 17th February 2020.

2.5 Presentation of Financial Statements

The Bank presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non current) is presented in Note 41.

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

2.6 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Bank's financial statements requires management to make Judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, the management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/ estimates involved.

2.6.1 Going Concern

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

2.6.2 Classification of Financial Assets and Liabilities

The Bank's Accounting Policies provide scope for assets and liabilities to be classified, at inception into different accounting categories. The classification of financial instruments is given in Note 36, 'Analysis of Financial Assets and Liabilities by Measurement Basis'.

2.6.3 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include model inputs such as volatility for discount rates. The valuation of financial instruments is described in more detail in Note 37.

2.6.4 Impairment Losses on Financial Assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk.

These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- The Bank's Days Past Due (DPD) based model, which assigns Probabilities of Defaults (PDs) to the individual age bucket
- The Bank's criteria for assessing if there has been a Significant Increase in Credit Risk (SICR) and so allowances for financial assets should be measured on a Life Time Expected Credit Losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values and the effect on Probability of Default (PDs), Exposure at Default (EADs) and Loss Given Default (LGDs)
- Selection of forward-looking macro economic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

The impairment losses on Financial Assets as per SLFRS 9 are disclosed in more detail in Notes 9, 9.1, 15.1, 19.5 and 20.3.

2.6.5 Fair Value of Property, Plant and Equipment

The Freehold Land and Buildings of the Bank are reflected at fair value. The Management determined that these constitute a class of asset under SLFRS 13, based on the nature, characteristics and risks of the property. The Bank engages independent professional valuers to determine fair values of Land and Building. When current market prices of similar assets are available, such evidence is considered in estimating fair values of these assets using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Assumptions used are disclosed in Note 22.6.

2.6.6 Useful Lives, Methods of Depreciation and Residual Values of the Property, Plant and Equipment

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

2.6.7 Defined Benefit Plan Obligation

The Defined Benefit Plan Obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are reviewed at each reporting date and disclosed in Note 31.

2.6.8 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.6.9 Provisions, Commitments and Contingencies

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

2.7 Changes in Accounting Policies and Disclosures

2.7.1 New and amended standards and interpretations

In these financial statements, the Bank has applied SLFRS 16 - 'Leases' and IFRIC 23 - 'Uncertainty over Income Tax Treatment' for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described in Notes 2.7.1.1, 2.7.1.2 and 2.8.13.

2.7.1.1 SLFRS 16 - Leases

SLFRS 16 supersedes LKAS 17- 'Lease' and IFRIC 4 - 'Determining whether an Arrangement contains a Lease' for periods on or after 01st January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted SLFRS 16 using the 'Modified Retrospective Method' of adoption with the date of initial application of 1st January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1st January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying LKAS 17 at the date of initial application.

The Bank has entered into lease contracts in connection with various premises used for day today activities. Before the adoption of SLFRS 16, the Bank classified each of its leases (as lessee) at the inception date as operating leases. Refer Note 2.8.14 for the accounting policy prior to 1st January 2019.

Upon adoption of SLFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer Note 2.8.13 for the accounting policy beginning 1st January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Leases previously accounted for as operating leases under SLFRS 16

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, the impact on transition has been disclosed in Note 4.

2.7.1.2 IFRIC 23 - Uncertainty over Income Tax Treatment

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

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

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

The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a complex environment, it assessed whether the Interpretation had an impact on its financial statements. Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions. The Bank determined, based on its tax compliance that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Bank.

2.8 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

2.8.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lankan Rupees (Rs.) which is also the functional currency.

2.8.1.1 Transactions and Balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non trading activities are taken to 'Other Operating Income' in the Statement of Comprehensive Income (Profit or Loss).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

Forward foreign exchange contracts are valued at the forward market rate ruling on the date of the Statement of Financial Position. Unrealised gains and losses are dealt under 'Net Gain from Trading' in the Statement of Comprehensive Income (Profit or Loss).

2.8.2 Financial instruments – Initial Recognition

2.8.2.1 Date of Recognition

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

2.8.2.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.8.3.1.1 and 2.8.3.1.2. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

2.8.2.3 'Day 1' Profit or Loss

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

2.8.2.4 Measurement Categories of Financial Assets and Liabilities

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

- Amortised cost, as explained in Note 2.8.3.1
- FVOCI, as explained in Notes 2.8.3.4 and 2.8.3.5
- FVPL

The Bank classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 2.8.3.2 and 2.8.3.3. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 2.8.3.7.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 2.8.3.7.

2.8.3 Financial Assets and Liabilities

2.8.3.1 Due from Banks, Loans & Advances and Financial Investments at Amortised Cost

The Bank only measures balances with foreign banks, placements with banks, loans and advances and other debt instruments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

2.8.3.1.1 Business model assessment

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

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

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

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

2.8.3.1.2 The SPPI test

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

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

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

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

2.8.3.2 Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, foreign exchange rate, financial instrument price, commodity price, index of prices or rates, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include cross currency swaps, forward foreign exchange contracts and interest rate swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.
Fully collateralised derivatives that are settled net in cash on a regular basis through clearing houses are only recognised to the extent of the overnight outstanding balance. The notional amount and fair value of such derivatives are disclosed separately in Note 17. Changes in the fair value of derivatives are included in 'net gains from trading' in Note 7.

2.8.3.3 Financial assets or financial liabilities held for trading

The Bank classifies financial assets as held for trading when they have been purchased primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there evidence of a recent pattern of short-term profit is taking. Held-for-trading assets are recorded and measured in the statement of financial position at fair value. Changes in fair value and dividend income are recognised in 'net trading income'. Interest income on held -for trading assets are recorded in 'Interest Income'. Included in this classification are debt securities, units and equities.

2.8.3.4. Debt instruments at FVOCI

The Bank classifies debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained in Note 2.8.6.3. Where the Bank holds more than one investment in the same security, they are deemed to be disposed off on a first-in first-out basis. On de-recognition, cumulative gains or losses previously recognised in OCI are re-classified from OCI to profit or loss.

2.8.3.5 Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of 'Equity' under LKAS 32- 'Financial Instruments' are not held for trading. Such classification is determined on an instrument-by- instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

2.8.3.6. Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

2.8.3.7. Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criterions is met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

  or

- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

  or

- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative is prohibited.

2.8.3.8. Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements within 'other liabilities' at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or Loss, and under SLFRS 9, an ECL provision as set out in Note 30.1.

The premium received is recognised in the Statement of Comprehensive Income (Profit or Loss) in net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer.

These contracts are in the scope of the ECL requirements. ECL's on undrawn credit commitments are added to the impairment allowances of the respective product and disclosed under Note 19.5.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments are disclosed in Note 42.

2.8.4 Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes off, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2018 and 2019.

2.8.5 De-recognition of financial assets and liabilities

2.8.5.1. De-recognition due to substantial modification of terms and conditions

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

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

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

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

2.8.5.2. De-recognition other than for substantial modification

2.8.5.2.1 Financial assets

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

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

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

  or

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

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

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients.
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for de-recognition if either:

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

  or

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

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

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

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

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

2.8.5.2.2. Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.8.6 Impairment of financial assets

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12months' expected credit loss (12mECL) as outlined in Note 2.8.6.2. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 38.2.2.5.

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

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 38.2.2.6.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 38.2.2.5.

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

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. Further bank includes credit facilities restructured up to 2 times under Stage 2.
- Stage 3: Loans considered credit impaired (as outlined in Note 38.2.2.1). The Bank records an allowance for the LTECLs. Further the bank includes credit facilities restructured for more than 2 times under stage 3.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

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

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

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de-recognised and is still in the portfolio. The concept of PDs is further explained in Note 38.2.2.2.

- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 38.2.2.3.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 38.2.2.4.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 38.2.2. When relevant, the assessment of multiple scenarios also incorporate show defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 2.8.6.5, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

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

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 9. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in Note 2.8.6.5.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired (as defined in Note 38.2.2.1), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability weighting of the three scenarios, discounted by the credit-adjusted EIR.
- Loan commitments and letters of credit: When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For Letters of Credit, ECLs are recognised within Other Liabilities.

- Financial guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or Loss, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within Other Liabilities.

2.8.6.3. Debt instruments measured at FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

The accumulated loss recognised in OCI is recycled to the profit and loss upon de-recognition of the assets.

2.8.6.4. Purchased or originated credit impaired financial assets (POCI)

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

2.8.6.5. Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdrafts and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 38.2.2, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 38.2.2.6, on an individual basis and on a collective basis. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

2.8.6.6 Forward looking information

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

- GDP growth
- Unemployment rates
- Exchange rates
- Inflation price indices
- Interest rates
- Government Policies
- Status of Industry and Business
- Regulatory Impact

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 38.2.3.

2.8.7 Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, property, letters of credit/guarantees, receivables, inventories and other movable and non movable assets. The fair value of collateral is generally assessed, at a minimum, at inception and thereafter value changes are monitored in accordance with policies and procedures of the Bank. However, some collateral, for example, cash or securities relating to margining requirements, are valued on daily basis. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as freehold property is valued based on valuation reports and other independent sources.

2.8.8 Collateral repossessed

The Bank's policy is to sell the repossessed assets at the earliest possible opportunity. Such collaterals repossessed are held on a memorandum basis without de-recognising the underlying receivable.

2.8.9 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. The Bank takes reasonable steps in pursuing recovery of contractual amounts outstanding prior to writing them off from books. The amounts written off during the year as disclosed in note 19.5 are contractual amounts which the bank has either become unsuccessful on the enforcement action or has concluded that the chances of recovering the same as remote. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are shown under 'Other Operating Income'.

2.8.10. Forborne loans

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

When the loan has been renegotiated or modified but not de-recognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 38.2.2.5. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as 'forborne', it will remain forborne for 3-12 months probation period, depending on number of days in arrears of respective facilities prior to forebearence as prescribed by Central Bank of Sri Lanka. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing.
- The probation period of 3-12 months has passed from the date the forborne contract was considered performing.
- The customer does not have any contract that is more than 30 days past due.

Details of forborne assets are disclosed in Note 38.2.5.

If modifications are substantial, the loan is de-recognised, as explained above.

2.8.11 Fair Value Measurement

The Bank measures financial instruments such as Financial Assets Held For Trading, Financial Derivatives, and non financial assets such as certain classes of Property, Plant and Equipment at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised under the respective notes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

  or

- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as properties and significant liabilities, such as defined benefit obligations. The selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management in conjunction with the Bank's external valuers', also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 37.2.

2.8.12 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.8.13 Leases (applicable from 1st January 2019)

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per SLFRS 16 and recognise right of use assets and lease liabilities.

2.8.13.1 Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.8.13.1.1 Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 23 and are subject to impairment in line with the Bank's policy for Impairment of non-financial assets.

2.8.13.1.2 Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

2.8.13.1.3 Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate.

2.8.13.1.4 Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments.

2.8.13.2 Bank as a lessor
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.8.14 Leases (Policy applicable before 1st January 2019)

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.8.14.1 Operating Leases
Bank as a Lessee
Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income (Profit or loss) on a straight line basis over the lease term.

Bank as a Lessor
Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

2.8.14.2 Finance Leases
Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as 'Finance Leases'. Amounts receivable under finance leases are included under 'Loans and Advances' in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

2.8.15 Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

2.8.15.1 The Effective Interest Rate Method
Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9 is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income.

The adjustment is subsequently amortised through Interest and similar income in the Statement of Comprehensive Income (Profit or Loss).

2.8.15.2 Interest Income and Expense
The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures (as outlined in Note 38.2.2.1) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit impaired (POCI) financial assets (as set out in Note 2.8.6.4), the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in interest income.

2.8.15.3 Fee and Commission Income and Expense

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and Commission Income comprise mainly of fees received from customers for guarantees and other services provided by the Bank together with foreign and domestic tariffs. Such income is recognised as revenue as the services are provided. Fee income can be divided into the following two categories:

2.8.15.3.1 Fee Income Earned from Services that are provided Over a Certain Period of Time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on straight line basis.

2.8.15.3.2 Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

2.8.15.4 Dividend Income

Dividend income is recognised when the Bank's right to receive the payment is established.

2.8.15.5 Net Gains from Trading

Results arising from trading activities include all gains and losses from buying and selling and changes in fair value of Financial Assets at fair value through profit or loss.

2.8.15.6 Expenditure Recognition

Expenses are recognised in Profit or Loss in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to Profit or Loss in the Statement of Comprehensive Income. For the purpose of presentation of the Statement of Comprehensive Income, the 'function of expenses method' has been adopted, on the basis that it presents fairly the elements of the Bank's performance.

2.8.15.7 Short term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided and are included under Personnel Expenses in the Statement of Comprehensive Income (Profit or Loss). A liability is recognised for the amounts expected to be paid under short-term bonus if the Bank has a present legal or constructive obligation to pay this amount as a result past service rendered by the employee and the obligation can be measured reliably.

2.8.16 Cash and Cash Equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises local and foreign currency, amounts due from Foreign Banks on demand or with an original maturity of three months or less and Placements with Banks with original maturities of three months or less from the date of placement within significant risk of changes in value.

2.8.17 Property, Plant and Equipment

Property, Plant and Equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one year.

2.8.17.1 Basis of Recognition

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

2.8.17.2 Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. The cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding cost of day to day servicing) as explained in 2.8.17.5 below. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of Computer Hardware. When parts of an item of property or equipment have different useful lives, they are accounted for as separate Items (major components) of Property, Plant and Equipment.

Notes to the Financial Statements

2.8.17.3 Cost Model

The Bank applies cost model to Property, Plant and Equipment, except for Freehold Land and Buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

2.8.17.4 Revaluation Model

The Bank applies the revaluation model to the entire class of Freehold Land and Buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold Land and Buildings of the Bank are revalued every three years on a roll over basis or more frequently if the fair values are substantially different from the carrying amounts to ensure that the carrying amounts do not differ materially from the fair values at the reporting date.

When asset's carrying amount is increased as a result of a revaluation the increase shall be recognised in Other Comprehensive Income and accumulated in equity under the heading of 'Revaluation Reserve'. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in Profit or Loss. However, the decrease shall be recognised in Other Comprehensive Income to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under the heading of 'Revaluation Reserve'.

A transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation reserve relating to the particular asset being sold/disposed off is transferred to retained earnings upon de-recognition.

2.8.17.5 Subsequent Costs

The subsequent cost of replacing a component of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Bank and its cost can be reliably measured. The costs of day to day servicing of Property, Plant and Equipment are charged to Profit or Loss as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

2.8.17.6 De-recognitions

The carrying amount of an item of Property, Plant and Equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in profit or loss when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

2.8.17.7 Depreciation

The Bank provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Bank of the different types of assets, except for which are disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is de-recognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Depreciation is calculated using the straight line method to write down the cost of Property, Plant and Equipment to their residual values over their estimated useful lives. Freehold Land is not depreciated. The estimated useful lives are as follows:

Buildings	40 Years
Office Equipment	6 Years
Computer Hardware and Equipment	6-10 Years
Furniture, Fittings and Fixtures	5-10 Years
Motor Vehicles	5 Years

The depreciation method and residual values of assets are reviewed at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

2.8.18 Intangible Assets

An intangible asset is an identifiable non monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

The Bank's intangible assets include cost of core banking licenses and other computer software.

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

2.8.18.2 Measurement
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at costless any accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

2.8.18.3 Subsequent Expenditure
Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

2.8.18.4 Amortisation
Intangible assets are amortised on straight line basis in profit or loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Bank. The estimated useful lives are as follows:

Core Banking Software Licenses	15 Years
Other Software	8 Years

The above rates are also comparable with the rates applied in the previous year.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Expenditure on an intangible item that was initially recognised as an expense by the Bank in previous financial years is not recognised as part of the cost of an intangible asset at a later date.

2.8.18.5 Retirement and Disposal
An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in Profit or Loss.

2.8.19 Other Assets
All other assets are stated at cost less accumulated impairment losses.

2.8.20 Impairment of Non Financial Assets
The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its Value in Use. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices or other available fair value indicators.

An assessment is made for assets at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or cash generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Profit or loss in the Statement of Comprehensive Income.

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

2.8.21.1 Operational Risk Events
Provisions for operational risk events are recognised for losses incurred by the Bank which do not relate directly to amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

2.8.22 Commitments and Contingencies

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

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. Operating lease commitments of the Bank and pending legal claims against the Bank too form part of commitments of the Bank. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. But these contingent liabilities do contain credit risk and are therefore form part of the overall risk of the Bank.

Details of commitments and contingencies are given in Note 42.

2.8.22.1 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements within 'Other Liabilities' at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or loss in the Statement of Comprehensive Income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in Profit or Loss in the Statement of Comprehensive Income under' Impairment for Loans and Other Losses'. The premium received is recognised in the Profit or Loss in the Statement of Comprehensive Income in 'Net Fee and Commission Income' on a straight line basis over the life of the guarantee.

2.8.22.2 Legal Claims

Litigation is a common occurrence in the banking industry due to the 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 loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

2.8.23 Employee Retirement Benefits

2.8.23.1 Defined Contribution Plan Costs

Defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution plan are recognised as 'a Personnel Expenses' in the Profit or Loss in the Statement of Comprehensive Income in the periods during which services are rendered by employees. Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with the respective Statutes and Regulations. Accordingly, the Bank contributes12% - 15% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognised as an expense under 'Personnel Expenses'.

2.8.23.2 Defined Benefit Plan Costs

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The liability recognised in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the 'Projected Unit Credit Method'. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the liability. Provision has been made in the financial statements for retiring gratuities from the first year of service for all employees, inconformity with LKAS 19 - 'Employee Benefits'.

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued service. The liability is not externally funded.

2.8.24 Other Liabilities

Other liabilities are recorded at the cash value to be paid when settled.

2.8.25 Taxes

2.8.25.1 Current Tax

The provision for income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No. 24 of 2017.

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

2.8.25.2 Deferred Tax

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Comprehensive Income (Profit or Loss).

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

2.8.25.3 Economic Service Charge

As per provisions of the Economic Service Charge (ESC) Act No.13 of 2006 and amendments thereafter, ESC is payable at 0.5% on Bank's liable turnover and is deductible from income tax payable. Economic Service Charge is proposed to be abolished with effective from 1st January 2020, subject to the ratification of the parliament.

2.8.25.4 Value Added Tax on Financial Services

Value Added Tax on Financial Services is calculated at 15% in accordance with the provisions of the Value Added Tax Act No.14 of 2002 and amendments thereto.

2.8.25.5 Nation Building Tax on Financial Services

Nation Building Tax on Financial Services for 1st January 2019 to 30th November 2019 is calculated at the rate of 2% in accordance with the provisions of the Nation Building Tax Act No.09 of 2009 and amendments thereto. Nation Building Tax has abolished from 1st December 2019 by the government.

2.8.25.6 Debt Repayment Levy

Debt Repayment Levy (DRL) was originally imposed on Banks and Finance Companies for a period of 3 years commencing from 1st October 2018 in accordance with the provisions of the Finance Act No. 35 of 2018.

DRL is calculated at the rate of 7% on the Taxable Value Addition computed for the purpose of Value Added Tax on Financial Services in accordance with the provisions of the Value Added Tax Act No.14 of 2002 before deducting Value Added Tax and Nation Building Tax on Financial Services. DRL is proposed to be abolished with effective from 1st January 2020, subject to the ratification of the parliament.

2.8.25.7 Crop Insurance Levy

Crop Insurance Levy is calculated at the rate of 1% of the profit after tax in accordance with Finance Act No. 12 of 2013.

2.8.26 Statutory Reserve Fund

"Statutory Reserve Fund" represents the statutory requirement in terms of Section 20 (1) and (2) of the Banking Act No 30 of 1988.

2.8.27 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.8.28 Materiality and Aggregation

Each material class of similar items is presented in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.8.29 Related Party Transactions

Disclosures have made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged.

2.8.30 Events after the Reporting Period

All the material events after end of the reporting period have been considered and appropriate adjustments/disclosures have been made in Note 45 to the Financial Statements.

2.9 Segment Reporting

The Bank's segmental reporting is based on the following operating segments: Corporate Banking, Retail & SME Banking and Treasury & Investments.

Corporate Banking segment includes loans, overdrafts, other credit facilities, deposits, current accounts and other services offered to corporate customers.

Retail & SME banking segment includes loans, overdrafts, credit card facilities, deposits, current accounts and other services offered to Retail and SME customers.

Treasury and investment function includes trading function, financing and other central functions, use of derivative for risk management purpose, investment products and services to institutional investors and intermediaries.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Financial Statements.

Income taxes and overhead expenses are managed on an entity basis and are not allocated to operating segments. Interest income is reported on net basis as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Revenue from transactions with no single external customer or counterparty amounted to 10% or more of the Bank's total revenue during the year.

2.10 Regulatory Provisions

Deposit Insurance and Liquidity Support Scheme

In terms of the Banking Act Direction No 05 of 2010 "Insurance of Deposit Liabilities" issued on 27th September 2010 and subsequent amendments there to all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No.01 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. The said scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No. 01 of 2013.

Deposits to be insured include demand, time and savings deposit liabilities and exclude the following;

a) deposit liabilities to member institutions

b) deposit liabilities to Government of Sri Lanka

c) deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No.11 of 2007 on Corporate Governance of Licensed Commercial Banks

d) deposit liabilities held as collateral against any accommodation granted

e) deposit liabilities falling within the meaning of 'abandoned property' in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

Licensed Commercial Banks are required to pay a premium of 0.10% per annum on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceded financial year and a premium of 0.125% per annum on eligible deposit liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

2.11 Transition Disclosure

Note 4 set out the impact of adopting SLFRS 16 on the Statement of Financial Position.

3. NEW ACCOUNTING STANDARDS

The following new accounting standards and amendments/improvements to existing standards which have been issued by the Institute of Chartered Accountants of Sri Lanka (CASL) are not effective as at 31st December 2019.

3.1. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of financial statements are disclosed below. The Banks intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

SLFRS 17 - Insurance Contracts

SLFRS 17 - Insurance Contracts, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 Insurance contracts. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1st January 2021. Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first apply SLFRS 17.

Amendments to LKAS 1 and LKAS 8: Definition of 'Material'

Amendments to LKAS 1 - 'Presentation of Financial Statements' and LKAS 8 - 'Accounting policies, Changes in accounting Estimates and Errors' are made to align the definition of "material" across the standard and to clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are applied prospectively for the annual periods beginning on or after 1st January 2020 with early application permitted.

Amendments to SLFRS 3: Definition of a Business

Amendments to the definition of a business in SLFRS 3 Business Combinations are made to help the entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definition of a business and of outputs, and introduce an optional fair value concentration test.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1st January 2020, with early application permitted.

Amendments to references to the conceptual framework in SLFRS standards.

Revisions to the Conceptual Framework were made because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting

The amendments are effective for annual periods beginning on or after 1st January 2020, with early application is permitted

Amendments to SLFRS 10 and LKAS 28

Limited scope amendments to SLFRS10 consolidated financial statements and LKAS 28 investments in associates and joint ventures were made. The amendments clarify the accounting treatment for sale or contribution of assets between investor and it's associate or joint ventures.

The amendments are applied prospectively. The effective date of the amendment is yet to be set by the CASL. However early application is permitted.

None of these new standards and amendments are expected to have a material impact on the financial statements of the Bank.

4 TRANSITIONAL DISCLOSURES

On transition to SLFRS 16, the Bank recognised right-of-use assets of Rs.1,086,495,125/- and lease liabilities of Rs.1,006,839,907/- in the Statement of Financial Position. The difference between the asset and liability was prepaid rentals as at 1st January 2019. The impact of transition as at 1st January 2019 is summarised below.

	Rs.
Operating lease commitments as at 31st December 2018	1,383,139,160
Weighted average incremental borrowing rate as at 1st January 2019	10.66%
Discounted operating lease commitments (Right-of-Use Assets) as at 1st January 2019	1,086,495,125
Lease Liabilities as at 1st January 2019	1,006,839,907

The adoption of SLFRS 16 had no impact on Bank's retained earnings and Capital Adequacy Ratios of the Bank.

5 NET INTEREST INCOME

	2019 Rs.	2018 Rs.
Interest Income		
Placements with Banks	8,007,723	29,177,275
Financial Assets at Amortised Cost		
-Loans and Advances	16,556,839,163	16,747,123,550
-Debt and Other Instruments	2,674,926,832	2,344,626,687
Financial Assets at Fair Value through Profit or Loss	176,832,134	36,208,150
	19,416,605,852	19,157,135,662
Interest Expense		
Due to Banks	97,487,310	137,537,101
Financial Liabilities at Amortised Cost		
-Due to Depositors	11,044,720,898	10,867,465,571
-Due to Debt Securities holders	1,083,315,645	965,580,192
Lease Liabilities *	101,630,636	-
Debenture Issued	454,862,881	668,258,237
	12,782,017,370	12,638,841,101
Net Interest Income	6,634,588,482	6,518,294,561

* The amounts for the year ended 31st December 2019 have been prepared in accordance with SLFRS 16: Leases where as prior period figures have not been restated.

5.1 Interest Income from Sri Lanka Government Securities and related Financial Instruments

	2019 Rs.	2018 Rs.
Interest Income	2,687,758,966	2,193,966,425

Interest Income from Sri Lanka Government Securities and related Financial Instruments includes Interest Income from Treasury Bills, Treasury Bonds, Sri Lanka Development Bonds, Securities Purchased under Re-Sale Agreements, Sovereign Bonds and other related instruments.

5.2 Net Interest Income from Financial Instruments not Measured at Fair Value through Profit or Loss

	2019 Rs.	2018 Rs.
Interest Income	19,239,773,718	19,120,927,512
Interest Expense	(12,782,017,370)	(12,638,841,101)
Net Interest Income	6,457,756,348	6,482,086,411

5.3 Interest Accrued on Impaired Loans and Advances

The Bank's interest income for year 2019 includes interest accrued on impaired loans and advances of Rs. 27,993,149/- (2018 - Rs. 22,741,303/-)

6 NET FEE AND COMMISSION INCOME

	2019 Rs.	2018 Rs.
Net Fee and Commission Income		
Fee and Commission Income	1,605,877,008	1,626,409,880
Fee and Commission Expense	(60,559,052)	(106,728,749)
	1,545,317,956	1,519,681,131
Comprising		
Loans	587,684,697	625,594,940
Cards	547,054,533	448,177,061
Trade and Remittance	283,037,304	335,579,254
Deposits	88,219,941	52,765,115
Guarantees	39,321,481	57,564,761
	1,545,317,956	1,519,681,131

7 NET GAINS FROM TRADING

	2019 Rs.	2018 Rs.
Equities and Unit Trusts		
Realised	195,148,944	194,956,365
Unrealised	5,472,280	(478,824)
Debt Securities		
Realised	80,318,320	5,546,349
Unrealised	983,125	(6,531,315)
Foreign Exchange - Net Forward Forex Gain	367,654,207	282,937,284
	649,576,876	476,429,859

Equities and Unit Trust Income includes the results of buying and selling, dividend income and changes in the fair value of equity securities and units. Debt securities income includes the results of buying and selling and changes in the fair value of debt securities. Foreign Exchange - Net Forward Forex Gain includes foreign exchange differences arising from derivative contracts which are not designated as hedging instruments.

Notes to the Financial Statements

8 OTHER OPERATING INCOME

	2019 Rs.	2018 Rs.
Gains on Revaluation of Foreign Exchange	177,485,418	377,422,327
Gains on Sale of Property Plant and Equipment	-	2,104,202
Recovery of Loans Written-off	44,914,413	19,614,763
Other Income	13,202,491	13,076,775
	235,602,322	412,218,067

8.1 The Bank does not perform interbank foreign currency transactions for trading purposes in the normal course of business. Therefore, no gain or loss generated from such transactions during the year. However, the Bank carry out forward transaction deals pertaining to customer requirements in the normal course of business.

9 IMPAIRMENT CHARGES

	2019			2018		
	Individual Rs.	Collective Rs.	Total Rs.	Individual Rs.	Collective Rs.	Total Rs.
Cash and Cash Equivalents (Note 15.1)	-	1,019,432	1,019,432	-	(591,471)	(591,471)
Placements with Banks	-	-	-	-	(645,483)	(645,483)
Loans and Advances - at Amortised Cost (Note 19.5)	456,808,435	631,862,532	1,088,670,967	1,297,299,816	701,812,027	1,999,111,843
Debt and Other Instruments - at Amortised Cost (Note 20.3)	-	42,525,810	42,525,810	-	33,763,997	33,763,997
Financial Guarantees (Note 30.1)	-	340,071	340,071	-	(8,133,718)	(8,133,718)
Documentary Credit (Note 30.1)	-	4,286,578	4,286,578	-	(6,358,636)	(6,358,636)
Total Impairment Charge for the Year	456,808,435	680,034,423	1,136,842,858	1,297,299,816	719,846,716	2,017,146,532

Stage wise analysis of impairment charge for the year is found in Note 9.1.

9.1 Impairment Charge - Stage-wise Analysis

	2019											
	Individual				Collective				Total			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents		-	-	-	1,019,432	-	-	1,019,432	1,019,432	-	-	1,019,432
Loans and Advances - at Amortised Cost		-	456,808,435	456,808,435	(203,310,805)	(102,644,359)	937,817,696	631,862,532	(203,310,805)	(102,644,359)	1,394,626,131	1,088,670,967
Debt and Other Instruments - at Amortised Cost	-	-	-	-	42,525,810	-	-	42,525,810	42,525,810	-	-	42,525,810
Financial Guarantees	-	-	-	-	340,071	-	-	340,071	340,071	-	-	340,071
Documentary Credit	-	-	-	-	4,286,578	-	-	4,286,578	4,286,578	-	-	4,286,578
Total (Note 9)	-	-	456,808,435	456,808,435	(155,138,914)	(102,644,359)	937,817,696	680,034,423	(155,138,914)	(102,644,359)	1,394,626,131	1,136,842,858

	2018											
	Individual				Collective				Total			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	-	-	-	-	(591,471)	-	-	(591,471)	(591,471)	-	-	(591,471)
Placements with Banks	-	-	-	-	(645,483)	-	-	(645,483)	(645,483)	-	-	(645,483)
Loans and Advances - at Amortised Cost	(720,642)	-	1,298,020,458	1,297,299,816	257,584,087	35,153,471	409,074,469	701,812,027	256,863,445	35,153,471	1,707,094,927	1,999,111,843
Debt and Other Instruments - at Amortised Cost	-	-	-	-	33,763,997	-	-	33,763,997	33,763,997	-	-	33,763,997
Financial Guarantees	-	-	-	-	(8,133,718)	-	-	(8,133,718)	(8,133,718)	-	-	(8,133,718)
Documentary Credit	-	-	-	-	(6,358,636)	-	-	(6,358,636)	(6,358,636)	-	-	(6,358,636)
Total (Note 9)	(720,642)	-	1,298,020,458	1,297,299,816	275,618,776	35,153,471	409,074,469	719,846,716	274,898,134	35,153,471	1,707,094,927	2,017,146,532

10 PERSONNEL EXPENSES

	2019 Rs.	2018 Rs.
Salaries, Wages and Other Related Expenses	1,671,833,059	1,581,062,343
Defined Contribution Plan Expenses - Employees' Provident Fund	155,468,333	146,482,888
- Employees' Trust Fund	36,745,697	34,520,041
Defined Benefit Plan Expenses (Note 31.1)	71,936,571	66,708,219
Amortisation of Prepaid Staff Expenses	37,325,996	34,300,624
	1,973,309,656	1,863,074,115

11 OTHER OPERATING EXPENSES

	2019 Rs.	2018 Rs.
Directors' Emoluments (Note 11.1)	56,777,062	58,399,325
Auditors' Remuneration	4,798,918	4,169,900
Non Audit Fees to Auditors	-	1,253,879
Professional and Legal Expenses	38,899,805	46,135,845
Depreciation of Property, Plant and Equipment	147,738,549	159,440,256
Amortisation of Right-of-Use Assets	202,526,811	-
Amortisation of Intangible Assets	37,439,104	34,370,887
Operating Lease Expenses	-	281,690,193
Administration and Establishment Expenses	650,440,620	553,016,405
Business Development Expenses	378,366,564	308,599,949
Other Expenses (Note 11.2)	1,035,266,502	998,670,847
	2,552,253,935	2,445,747,486

11.1 Directors Emoluments includes Salaries, Bonuses and other related expenses of Chief Executive Officer/Director and fees paid to Non Executive Directors including the Chairman.

11.2 Other Expense includes expenses incurred for insurance, printing, stationery, telephone & internet bills, travelling & transport, maintenance and other premises and administration purposes.

12 TAXES AND LEVIES ON FINANCIAL SERVICES

	2019 Rs.	2018 Rs.
Value Added Tax on Financial Services	643,977,952	562,234,891
Nation Building Tax on Financial Services	68,157,981	74,964,652
Debt Repayment Levy	376,404,255	53,799,093
	1,088,540,188	690,998,636

13 INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31st December 2019 and 31st December 2018 are:

	2019 Rs.	2018 Rs.
Current Tax Expense		
Current Tax Charge of Profit for the Year (Note 13.1)	794,559,093	796,981,258
Over Provisions in respect of Previous Years	(239,754,798)	(168,535,433)
Total Current Tax Expense	554,804,295	628,445,825
Deferred Tax		
Relating to Origination and Reversal of Temporary Differences (Note 13.2)	8,765,609	(260,431,823)
Total Deferred Tax Expense	8,765,609	(260,431,823)
Total Income Tax Expense (Profit or Loss) (Note 13.1)	563,569,904	368,014,002

The income tax liability for the year ended 31st December 2019 have made as per the provisions of the Inland Revenue Act No. 24 of 2017.

13.1 Reconciliation of the Total Tax Expense

A reconciliation between the tax expense and the accounting profit multiplied by the Statutory Income tax rate for the year ended 31st December 2019 and 31st December 2018 is as follows:

	2019 Rs.	2018 Rs.
Accounting Profit Before Tax	2,314,138,999	1,909,656,849
At Statutory Income Tax Rate of 28%	647,958,920	534,703,918
Non Deductible Expenses and Amounts	1,195,617,231	1,441,177,259
Deductible Expenses and Amounts	(983,408,844)	(1,125,103,822)
Income not Subject to Tax	(65,608,214)	(29,541,342)
Tax Effect of Business of Finance Leasing -Tax Losses	-	(24,254,755)
Current Tax on Profits (Note 13)	794,559,093	796,981,258
Over Provisions in respect of Previous Years	(239,754,798)	(168,535,433)
Current Tax Expense (Note 13)	554,804,295	628,445,825
Recognition of deferred tax on temporary differences (Note 13.2)	8,765,609	(260,431,823)
Total Income Tax Expense (Note 13)	563,569,904	368,014,002
Effective Income Tax Rate (Excluding Deferred tax and Adjustment for Current Income Tax of Prior Years)	34.33%	41.73%
Effective Income Tax Rate (Including Deferred tax and Adjustment for Current Income Tax of Prior Years)	24.35%	19.27%

13.2 Deferred Tax

The following table shows deferred tax liabilities recorded on the Statement of Financial Position and changes recorded in the Statement of Comprehensive Income (Profit or loss and Other Comprehensive Income).

	2019			2018			
	Deferred Tax Liabilities/(Assets) (Statement of Financial Position)	Statement of Comprehensive Income		Deferred Tax Liabilities/(Assets) (Statement of Financial Position)	Statement of Comprehensive Income		Statement of Changes in Equity
		Profit or Loss	Other Comprehensive Income		Profit or Loss	Other Comprehensive Income	Impact on Adoption of SLFRS 9
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Lease Rentals Receivable	371,418,895	(90,394,015)	-	461,812,910	(87,229,905)	-	-
Property, Plant and Equipment	475,319,412	(5,721,335)	127,426,030	353,614,717	2,689,594	-	-
Intangible Assets	66,206,859	(5,375,538)	-	71,582,397	17,507,065	-	-
Defined Benefit Plan Obligation	(91,556,473)	(13,041,482)	1,520,137	(80,035,128)	(10,884,685)	7,148,826	-
Impairment on Financial Assets	(659,729,683)	123,297,979	-	(783,027,664)	(177,890,114)	-	(382,382,589)
Tax Losses	(28,878,534)	-	-	(28,878,534)	(4,623,778)	-	-
Total	132,780,476	8,765,609	128,946,167	(4,931,302)	(260,431,823)	7,148,826	(382,382,589)

14 EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary share holders by the weighted average number of ordinary shares outstanding during the year.

Diluted Earnings Per Share is calculated by dividing the profit attributable to ordinary equity holders of Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As there were no potential ordinary equity outstanding at year end, Diluted Earnings per Share is equal to the Basic Earnings per Share for the year.

The income and share data used in the Basic/Diluted Earnings Per Share calculations are detailed below;

	2019	2018
Profit Attributable to Ordinary Shareholders (Rs.)	1,750,569,095	1,541,642,847
Weighted Average Number of Ordinary Shares in Issue	442,561,629	442,561,629
Basic/Diluted Earnings Per Share (Rs.)	3.96	3.48

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these Financial Statements which would require the restatement of Earnings per Share.

There were no dividend payments during the year (2018 - Nil).

15 CASH AND CASH EQUIVALENTS

	2019	2018
	Rs.	Rs.
Cash in Hand (Note 40)	1,475,276,403	1,394,232,445
Balances with Foreign Banks (Note 40)	234,373,360	820,235,019
Less: Allowance for impairment losses (Note 15.1)	(1,380,548)	(361,116)
	1,708,269,215	2,214,106,348

15.1 Allowance for Impairment Losses

Balances with Foreign Banks

The table below shows the credit quality and the maximum exposure to credit risk based on the year-end stage classification. The amounts presented are gross of impairment allowances. The policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.2.2.6.

Stage Classification

	2019 Rs.	2018 Rs.
Balances with Foreign Banks (Note 40)	234,373,360	820,235,019
	234,373,360	820,235,019

All balances held with foreign banks are 'stage 1' assets.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Balances with Foreign Banks is as follows:

Gross Carrying Amount

	2019		
	Balance as at 01/01/2019 Rs.	Net Increase/ (Decrease) during the year Rs.	Balance as at 31/12/2019 Rs.
Balances with Foreign Banks (Note 40)	820,235,019	(585,861,659)	234,373,360
	820,235,019	(585,861,659)	234,373,360

ECL Allowances

	2019		
	ECL Allowances as at 01/01/2019 Rs.	Net Increase/ (Decrease) during the year Rs.	ECL Allowances as at 31/12/2019 Rs.
Balances with Foreign Banks			
Collective	361,116	1,019,432	1,380,548
	361,116	1,019,432	1,380,548

Gross Carrying Amount

	2018		
	Balance as at 01/01/2018 Rs.	Net Increase/ (Decrease) during the year Rs.	Balance as at 31/12/2018 Rs.
Balances with Foreign Banks (Note 40)	260,673,566	559,561,453	820,235,019
	260,673,566	559,561,453	820,235,019

Notes to the Financial Statements

ECL Allowances

	2018		
	ECL Allowances as at 01/01/2018 Rs.	Net Increase/ (Decrease) during the year Rs.	ECL Allowances as at 31/12/2018 Rs.
Balances with Foreign Banks			
Collective	952,587	(591,471)	361,116
	952,587	(591,471)	361,116

The increase/(decrease) in ECL's of the portfolio was driven by changes in the composition of the portfolio and changes in PD's.

16 BALANCES WITH CENTRAL BANK OF SRI LANKA

	2019 Rs.	2018 Rs.
Statutory Deposit with the Central Bank of Sri Lanka	5,333,199,577	6,481,993,762
	5,333,199,577	6,481,993,762

Balances with Central Bank of Sri Lanka represent the cash balances that is required to be maintained as per the provisions of the Section 93 of the Monetary Law Act. The minimum cash reserve requirement of Rupee Deposit liabilities of Domestic Banking Unit as at 31st December 2019 was 5% (2018 - 6%). The statutory Deposit with Central Bank of Sri Lanka is not available for the use in Bank's day to day operations.

17 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period end and are indicative of neither the market risk nor the credit risk.

	2019			2018		
	Assets Rs.	Liabilities Rs.	Notional Amount Rs.	Assets Rs.	Liabilities Rs.	Notional Amount Rs.
Forward Foreign Exchange Contracts	443,298	107,293	334,452,350	209,701	114,235	775,562,653
	443,298	107,293	334,452,350	209,701	114,235	775,562,653

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank. The Bank's exposure under derivative contracts are closely monitored as part of the overall management of the Bank's market risk.

Forward Foreign Exchange Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over the counter market and are subject to credit risk and liquidity risk and result in market exposure. The Bank has credit exposure to the counterparties of forward contracts which are settled on gross basis therefore, considered to bear a higher liquidity risk than the futures contracts that are settled on a net basis.

Currency Swaps

Currency Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying foreign currency rate. In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Fair Values

Disclosures concerning the fair value of derivatives are provided in Note 37.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 Rs.	2018 Rs.
Quoted Equities (Note 18.1)	-	11,628,595
Sri Lanka Government Foreign Currency Securities (Note 18.2)	168,176,768	-
	168,176,768	11,628,595

18.1 Quoted Equities

	2018		
	No. of Shares	Cost Rs.	Fair Value Rs.
Vallibel One PLC	684,035	17,100,875	11,628,595
		17,100,875	11,628,595
Carrying Value			11,628,595

18.2 Sri Lanka Government Foreign Currency Securities

	2019	
	Cost Rs.	Fair Value Rs.
Sri Lanka Government Foreign Currency Securities	163,385,951	168,176,768
	163,385,951	168,176,768
Carrying Value		168,176,768

19 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES

	2019 Rs.	2018 Rs.
Gross Loans and Advances (Note 19.1 & Note 19.2)	117,503,175,729	113,494,424,234
Less: Individual Impairment (Note 19.5)	(2,823,009,112)	(2,366,200,677)
Collective Impairment (Note 19.5)	(3,492,311,339)	(2,959,362,092)
	111,187,855,278	108,168,861,465

19.1 Product-wise Analysis

	2019 Rs.	2018 Rs.
Term Loans	76,045,574,825	70,870,588,455
Overdrafts	16,787,688,228	17,936,817,659
Trade Finance	3,664,711,387	4,036,976,250
Lease Rentals Receivable (Note 43.2)	8,627,201,529	9,804,132,849
Others	12,377,999,760	10,845,909,021
Total (Note 19.5)	117,503,175,729	113,494,424,234

19.2 Currency-wise Analysis

	2019 Rs.	2018 Rs.
Sri Lankan Rupee	107,565,116,054	103,345,693,337
United States Dollar	3,904,779,791	3,917,081,950
Japanese Yen	4,495,589,762	4,531,567,755
Euro	1,318,520,888	1,540,219,304
Great Britain Pound	34,874,447	53,485,881
Others	184,294,787	106,376,007
Total (Note 19.5)	117,503,175,729	113,494,424,234

19.3 Industry-wise Analysis

Industry-wise analysis of the Loans and Advances are found in Note 38.2.9.2 (Concentration of Credit Risk - Industry Analysis).

19.4 Individually Impaired Loans and Advances

	2019 Rs.	2018 Rs.
Gross amount of Loans and Advances, individually determined to be impaired, before deducting Impairment Losses	3,814,610,409	3,447,616,959
Less: Individual Impairment Losses	(2,823,009,112)	(2,366,200,677)
Net Exposure	991,601,297	1,081,416,282
Impairment Cover Ratio (Individual Impairment Losses to Gross Individually Impaired Loans & Advances)	74.01%	68.63%
Impaired Loans and Advances Ratio (Individually Impaired Loans and Advances to Gross Loans and Advances)	3.25%	3.04%

19.5 Allowances for Impairment - Loans and Advances

The table below shows year-end stage classification. The amounts presented are gross of impairment allowances. Accounting policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.2.2.6.

Stage Classification

	2019							
	Stage 1		Stage 2		Stage 3		Total	
	Individual	Collective	Individual	Collective	Individual	Collective	Individual	Collective
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Term Loans	-	63,625,104,692	-	5,402,243,857	1,651,287,447	5,366,938,829	1,651,287,447	74,394,287,378
Overdrafts	-	11,484,539,380	-	3,079,109,829	1,314,690,235	909,348,784	1,314,690,235	15,472,997,993
Trade Finance	-	2,897,209,748	-	355,312,591	328,602,455	83,586,593	328,602,455	3,336,108,932
Lease Rentals Receivable	-	3,957,142,209	-	4,420,942,412	-	249,116,908	-	8,627,201,529
Others	-	10,502,693,747	-	728,376,892	520,030,272	626,898,849	520,030,272	11,857,969,488
	-	92,466,689,776	-	13,985,985,581	3,814,610,409	7,235,889,963	3,814,610,409	113,688,565,320

	2018							
	Stage 1		Stage 2		Stage 3		Total	
	Individual	Collective	Individual	Collective	Individual	Collective	Individual	Collective
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Term Loans	-	59,608,416,034	-	6,884,041,583	1,219,717,955	3,158,412,883	1,219,717,955	69,650,870,500
Overdrafts	-	11,958,194,399	-	3,927,798,344	1,142,971,134	907,853,782	1,142,971,134	16,793,846,525
Trade Finance	-	2,899,102,317	-	724,630,608	346,600,992	66,642,333	346,600,992	3,690,375,258
Lease Rentals Receivable	-	4,315,257,759	-	5,007,251,864	206,034,889	275,588,337	206,034,889	9,598,097,960
Others	-	9,385,276,126	-	531,120,374	532,291,990	397,220,531	532,291,990	10,313,617,031
	-	88,166,246,635	-	17,074,842,773	3,447,616,960	4,805,717,866	3,447,616,960	110,046,807,274

There were no purchased or originated credit impaired (POCI) assets within Loans and Advances as at the year end (2018 - Nil).

Notes to the Financial Statements

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Loans and Advances is as follows:

Gross Carrying Amount

	2019							
	Stage	Balance as at 01/01/2019	Net Increase/ (Decrease) during the year*	Transfers to			Amounts written off during the year	Balance as at 31/12/2019
				Stage 1	Stage 2	Stage 3		
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Term Loans								
Individual	Stage 1	-	157,092,179	-	-	(157,092,179)	-	-
	Stage 2	-	44,504,218	-	-	(44,504,219)	-	-
	Stage 3	1,219,717,955	216,453,094	-	13,520,000	201,596,398	-	1,651,287,447
Collective	Stage 1	59,608,416,034	4,974,038,141	1,484,587,767	(1,871,609,800)	(570,327,450)	-	63,625,104,692
	Stage 2	6,884,041,583	(1,566,306,870)	(1,402,510,850)	1,952,031,030	(465,011,036)	-	5,402,243,857
	Stage 3	3,158,412,883	1,358,683,174	(82,076,917)	(93,941,230)	1,035,338,486	(9,477,567)	5,366,938,829
Overdrafts								
Individual	Stage 1	-	48,816,874	-	-	(48,816,874)	-	-
	Stage 2	-	20,322,407	-	-	(20,322,407)	-	-
	Stage 3	1,142,971,134	102,579,820	-	-	69,139,281	-	1,314,690,235
Collective	Stage 1	11,958,194,399	47,995,583	1,299,856,197	(1,740,766,400)	(80,740,399)	-	11,484,539,380
	Stage 2	3,927,798,344	(1,126,439,844)	(1,271,506,268)	1,752,951,808	(203,694,211)	-	3,079,109,829
	Stage 3	907,853,782	(242,404,271)	(28,349,929)	(12,185,408)	284,434,610	-	909,348,784
Trade Finance								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	346,600,992	(17,998,537)	-	-	-	-	328,602,455
Collective	Stage 1	2,899,102,317	11,054,123	-	-	(12,946,692)	-	2,897,209,748
	Stage 2	724,630,608	(365,930,583)	-	-	(3,387,434)	-	355,312,591
	Stage 3	66,642,333	610,134	-	-	16,334,126	-	83,586,593
Lease Rentals Receivable								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	206,034,889	(206,034,889)	-	-	-	-	-
Collective	Stage 1	4,315,257,759	96,102,321	434,163,188	(880,881,952)	(7,499,107)	-	3,957,142,209
	Stage 2	5,007,251,864	(958,204,001)	(431,809,710)	917,181,412	(113,477,153)	-	4,420,942,412
	Stage 3	275,588,337	(20,191,070)	(2,353,478)	(36,299,460)	120,976,260	(88,603,681)	249,116,908
Others								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	532,291,990	(12,261,718)	-	-	-	-	520,030,272
Collective	Stage 1	9,385,276,126	1,568,639,909	138,733,622	(383,779,874)	(206,176,036)	-	10,502,693,747
	Stage 2	531,120,374	69,380,166	(130,093,368)	387,116,228	(129,146,508)	-	728,376,892
	Stage 3	397,220,531	(92,835,580)	(8,640,254)	(3,336,354)	335,322,544	(832,037)	626,898,849
		113,494,424,234	4,107,664,780	-	-	-	(98,913,285)	117,503,175,729

*This includes the effect of new disbursements, utilisations, repayments, settlements as well as effects of movements in foreign exchange rates.

ECL Allowances

	Stage	2019 Balance as at 01/01/2019	Charge / (Reversals) during the Year	Amounts Written Off	Balance as at 31/12/2019
		Rs.	Rs.	Rs.	Rs.
Term Loans					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	784,212,116	352,903,826	-	1,137,115,942
Collective	Stage 1	419,675,798	(117,244,444)	-	302,431,354
	Stage 2	281,524,969	(76,977,425)	-	204,547,544
	Stage 3	608,272,526	524,547,356	(9,477,567)	1,123,342,315
Overdrafts					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	816,652,326	205,724,395	-	1,022,376,721
Collective	Stage 1	402,000,131	(11,234,961)	-	390,765,170
	Stage 2	191,205,739	(27,163,989)	-	164,041,750
	Stage 3	337,483,542	76,885,386	-	414,368,928
Trade Finance					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	186,008,920	(10,935,083)	-	175,073,837
Collective	Stage 1	8,214,897	(1,816,690)	-	6,398,207
	Stage 2	12,772,003	(6,843,955)	-	5,928,048
	Stage 3	7,395,938	2,879,363	-	10,275,301
Lease Rentals Receivable					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	74,446,037	(74,446,037)	-	-
Collective	Stage 1	18,765,598	(3,715,044)	-	15,050,554
	Stage 2	47,641,351	(13,895,687)	-	33,745,664
	Stage 3	37,713,537	88,965,752	(88,603,681)	38,075,608
Others					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	504,881,278	(16,438,666)	-	488,442,612
Collective	Stage 1	335,722,638	(69,299,665)	-	266,422,973
	Stage 2	65,981,398	22,236,696	-	88,218,094
	Stage 3	184,992,027	244,539,839	(832,037)	428,699,829
		5,325,562,769	1,088,670,967	(98,913,285)	6,315,320,451

The increase/(decrease) in ECL's of the portfolios were driven by an increase/(decrease) in the gross size of the portfolio/exposures, movements between stages as a result of the change in credit risk, changes in Probability of Defaults, Loss Given Defaults, Credit Conversion Factors and changes in economic conditions.

Notes to the Financial Statements

Gross Carrying Amount

		2018						
	Stage	Balance as at 01/01/2018	Net Increase/ (Decrease) during the year*	Transfers to			Amounts written off during the year	Balance as at 31/12/2018
				Stage 1	Stage 2	Stage 3		
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Term Loans								
Individual	Stage 1	25,497,768	(800,000)	(24,697,768)	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	576,455,918	378,448,993	61,877,550	246,576,164	(43,640,670)	-	1,219,717,955
Collective	Stage 1	52,072,280,414	9,538,759,348	1,054,203,522	(2,293,262,639)	(763,564,611)	-	59,608,416,034
	Stage 2	4,427,523,136	1,870,409,401	(1,033,206,025)	2,072,641,310	(453,326,239)	-	6,884,041,583
	Stage 3	1,786,111,020	197,936,650	(58,177,279)	(25,954,835)	1,260,531,520	(2,034,193)	3,158,412,883
Overdrafts								
Individual	Stage 1	83,418	-	(83,418)	-	-	-	-
	Stage 2	106	-	-	(106)	-	-	-
	Stage 3	710,616,928	(32,536,283)	260,345,887	124,318,169	80,226,433	-	1,142,971,134
Collective	Stage 1	12,769,579,463	1,530,705,525	792,678,009	(2,846,172,483)	(288,596,115)	-	11,958,194,399
	Stage 2	3,503,306,181	(1,414,363,344)	(921,780,297)	2,797,770,152	(37,134,348)	-	3,927,798,344
	Stage 3	719,519,887	149,905,778	(131,160,181)	(75,915,732)	245,504,030	-	907,853,782
Trade Finance								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	281,216,253	5,240,336	53,612,152	6,532,251	-	-	346,600,992
Collective	Stage 1	2,739,375,385	181,811,342	(10,487,004)	-	(11,597,406)	-	2,899,102,317
	Stage 2	928,572,547	(134,415,198)	(43,125,148)	(6,532,251)	(19,869,342)	-	724,630,608
	Stage 3	597,625,540	(562,449,955)	-	-	31,466,748	-	66,642,333
Lease Rentals Receivable								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	110,187,133	3,920,734	91,927,022	-	-	206,034,889
Collective	Stage 1	4,015,955,127	688,871,469	488,743,504	(845,586,352)	(32,725,989)	-	4,315,257,759
	Stage 2	5,167,467,476	(349,326,167)	(487,479,336)	788,929,783	(112,339,892)	-	5,007,251,864
	Stage 3	266,214,582	(75,881,572)	(5,184,902)	(35,270,453)	145,065,881	(19,355,199)	275,588,337
Others								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	485,834,561	88,783,293	-	-	(42,325,864)	-	532,291,990
Collective	Stage 1	8,516,960,869	1,199,525,798	127,365,318	(295,802,155)	(162,773,704)	-	9,385,276,126
	Stage 2	873,148,543	(408,136,285)	(125,650,839)	299,276,235	(107,517,280)	-	531,120,374
	Stage 3	243,751,221	858,430	(1,714,479)	(3,474,080)	312,616,848	(154,817,409)	397,220,531
		100,707,096,343	12,963,534,692	-	-	-	(176,206,801)	113,494,424,234

*This includes the effect of new disbursements, utilisation, repayments, settlements as well as effects of movements in foreign exchange rates.

ECL Allowances

	Stage	Balance as at 01/01/2018 Rs.	2018 Charge / (Reversals) during the Year Rs.	Amounts Written Off Rs.	Balance as at 31/12/2018 Rs.
Term Loans					
Individual	Stage 1	714,245	(714,245)	-	-
	Stage 2	-	-	-	-
	Stage 3	226,108,759	558,103,357	-	784,212,116
Collective	Stage 1	317,775,496	101,900,302	-	419,675,798
	Stage 2	203,648,143	77,876,826	-	281,524,969
	Stage 3	346,787,531	263,519,188	(2,034,193)	608,272,526
Overdrafts					
Individual	Stage 1	6,397	(6,397)	-	-
	Stage 2	-	-	-	-
	Stage 3	437,237,078	379,415,248	-	816,652,326
Collective	Stage 1	371,098,405	30,901,726	-	402,000,131
	Stage 2	225,570,680	(34,364,941)	-	191,205,739
	Stage 3	312,945,173	24,538,369	-	337,483,542
Trade Finance					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	89,073,335	96,935,585	-	186,008,920
Collective	Stage 1	9,807,679	(1,592,782)	-	8,214,897
	Stage 2	36,974,749	(24,202,746)	-	12,772,003
	Stage 3	85,972,466	(78,576,528)	-	7,395,938
Lease Rentals Receivable					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	-	74,446,037	-	74,446,037
Collective	Stage 1	3,850,967	14,914,631	-	18,765,598
	Stage 2	37,763,031	9,878,320	-	47,641,351
	Stage 3	70,649,587	(13,580,851)	(19,355,199)	37,713,537
Others					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	315,760,897	189,120,381	-	504,881,278
Collective	Stage 1	224,262,578	111,460,060	-	335,722,638
	Stage 2	60,015,385	5,966,013	-	65,981,398
	Stage 3	126,635,146	213,174,290	(154,817,409)	184,992,027
		3,502,657,727	1,999,111,843	(176,206,801)	5,325,562,769

The increase/(decrease) in ECL's of the portfolios were driven by an increase/(decrease) in the gross size of the portfolio/exposures, movements between stages as a result of the change in credit risk, changes in Probability of Defaults, Loss Given Defaults, Credit Conversion Factors and changes in economic conditions.

20 FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

	2019 Rs.	2018 Rs.
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds (Note 20.3)	12,857,565,412	20,874,625,206
Less: Allowance for impairment losses (Note 20.3)	-	-
Debentures - Quoted (Note 20.3)	1,619,436,757	1,619,436,757
Less: Allowance for impairment losses (Note 20.3)	(1,021,292)	(626,587)
Securities Purchased Under Resale Agreements (Note 20.3)	63,557,464	848,270,844
Less: Allowance for impairment losses (Note 20.3)	-	-
Sri Lanka Government Foreign Currency Securities (Note 20.3)	15,665,886,271	10,816,056,405
Less: Allowance for impairment losses (Note 20.3)	(125,336,151)	(83,205,046)
	30,080,088,461	34,074,557,579

20.1 Currency-wise Analysis (Gross)

	2019 Rs.	2018 Rs.
Sri Lankan Rupee	14,540,559,633	23,342,332,807
United States Dollar	15,665,886,271	10,816,056,405
	30,206,445,904	34,158,389,212

20.2 Collateralisation-wise Analysis (Gross)

	2019 Rs.	2018 Rs.
Pledged as Collateral	2,411,961,297	3,307,795,600
Un-encumbered	27,794,484,607	30,850,593,612
	30,206,445,904	34,158,389,212

20.3 Allowance for Impairment - Debt and Other Instruments

The table below shows the credit quality and the maximum exposure to credit risk based on the product and year-end stage classification. The amounts presented are gross of impairment allowances. Accounting Policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.2.2.6.

Stage Classification

	2019				2018			
	Stage 1		Total		Stage 1		Total	
	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	-	12,857,565,412	-	12,857,565,412	-	20,874,625,206	-	20,874,625,206
Quoted Debentures	-	1,619,436,757	-	1,619,436,757	-	1,619,436,757	-	1,619,436,757
Securities Purchased under Resale Agreements	-	63,557,464	-	63,557,464	-	848,270,844	-	848,270,844
Sri Lanka Government Foreign Currency Securities	-	15,665,886,271	-	15,665,886,271	-	10,816,056,405	-	10,816,056,405
Total	-	30,206,445,904	-	30,206,445,904	-	34,158,389,212	-	34,158,389,212

All Debt Instruments at Amortised Cost are 'Stage 1' assets.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Debt and Other Instruments at amortised cost is, as follows:

Gross Carrying Amount

	2019			2018		
	Balance as at 01/01/2019 Rs.	Net Increase/ (Decrease) During the Year Rs.	Balance as at 31/12/2019 Rs.	Balance as at 01/01/2018 Rs.	Net Increase/ (Decrease) During the Year Rs.	Balance as at 31/12/2018 Rs.
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds						
Collective	20,874,625,206	(8,017,059,794)	12,857,565,412	12,287,192,426	8,587,432,780	20,874,625,206
Debentures - Quoted						
Collective	1,619,436,757	-	1,619,436,757	1,997,500,223	(378,063,466)	1,619,436,757
Securities Purchased under Resale Agreements						
Collective	848,270,844	(784,713,380)	63,557,464	186,289,553	661,981,291	848,270,844
Sri Lanka Government Foreign Currency Securities						
Collective	10,816,056,405	4,849,829,866	15,665,886,271	8,865,418,440	1,950,637,965	10,816,056,405
	34,158,389,212	(3,951,943,308)	30,206,445,904	23,336,400,642	10,821,988,570	34,158,389,212

ECL Allowances

	Balance as at 01/01/2019 Rs.	Charge for the Year Rs.	Balance as at 31/12/2019 Rs.	Balance as at 01/01/2018 Rs.	Charge for the Year Rs.	Balance as at 31/12/2018 Rs.
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds						
Collective	-	-	-	-	-	-
Debentures - Quoted						
Collective	626,588	394,704	1,021,292	615,295	11,293	626,588
Securities Purchased Under Resale Agreements						
Collective	-	-	-	-	-	-
Sri Lanka Government Foreign Currency Securities						
Collective	83,205,045	42,131,106	125,336,151	49,452,341	33,752,704	83,205,045
	83,831,633	42,525,810	126,357,443	50,067,636	33,763,997	83,831,633

The changes in ECLs of the portfolio is driven by an increase/(decrease) in the gross size of the portfolio, changes in default probabilities (PD's) and deterioration of economic conditions.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 Rs.	2018 Rs.
Equities - Unquoted (Note 21.1)	6,157,847	6,157,847
	6,157,847	6,157,847

All unquoted FVOCI instruments are recorded at cost since its, fair value cannot be reliably estimated. There is no market for these instruments, and the Bank intends to hold these for long term.

21.1 Equities - Unquoted

	2019		2018	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
Credit Information Bureau of Sri Lanka (CRIB)	300	30,000	300	30,000
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	8	4,127,847	8	4,127,847
Lanka Clear (Private) Limited	100,000	1,000,000	100,000	1,000,000
Lanka Financial Services Bureau Limited (LFSB)	100,000	1,000,000	100,000	1,000,000
		6,157,847		6,157,847

22 PROPERTY, PLANT AND EQUIPMENT

22.1 Cost/Fair Value

	Freehold Land	Freehold Buildings	Office Equipments	Computer Hardware & Equipments	Furniture & Fittings	Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 1st January 2019	1,014,910,000	448,141,000	432,694,231	592,618,318	685,401,913	20,297,620	3,194,063,082
Additions	-	-	37,277,240	13,620,006	47,429,233	-	98,326,479
Revaluation	387,250,000	33,434,000	-	-	-	-	420,684,000
Disposals	-	-	(39,260,778)	(88,535,022)	(53,613,592)	-	(181,409,392)
As at 31st December 2019	1,402,160,000	481,575,000	430,710,693	517,703,302	679,217,554	20,297,620	3,531,664,169

22.2 Depreciation & Impairment

	Freehold Land	Freehold Buildings	Office Equipments	Computer Hardware & Equipments	Furniture & Fittings	Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 1st January 2019	-	19,123,055	341,189,082	415,932,749	473,383,303	9,860,954	1,259,489,143
Depreciation Charge for the Year	-	15,285,908	27,899,339	46,971,657	53,541,645	4,040,000	147,738,549
Revaluation	-	(34,408,963)	-	-	-	-	(34,408,963)
Disposals	-	-	(38,072,335)	(87,414,335)	(49,629,003)	-	(175,115,673)
As at 31st December 2019	-	-	331,016,086	375,490,071	477,295,945	13,900,954	1,197,703,056

There were no impairment losses recognised on Property, Plant and Equipment as at 31st December 2019. (2018-Nil).

22.3 Net Book Value

	Freehold Land	Freehold Buildings	Office Equipments	Computer Hardware & Equipments	Furniture & Fittings	Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 31st December 2018	1,014,910,000	429,017,945	91,505,149	176,685,569	212,018,610	10,436,666	1,934,573,939
As at 31st December 2019	1,402,160,000	481,575,000	99,694,607	142,213,231	201,921,609	6,396,666	2,333,961,113

22.4 There were no capital work in progress outstanding as at the Statement of Financial Position Date. (2018- Nil)

22.5 Freehold Land and Building - Addresses, Locations and Extents

Address	Extent		31st December 2019 Revalued Amount		31st December 2018 Revalued Amount	
	Land (Perches)	Building (Square Feet)	Land Rs.	Building Rs.	Land Rs.	Building Rs.
No: 450, Galle Road, Colombo 03	23.66	41,420	556,010,000	465,975,000	437,710,000	434,491,000
No: 08, Sea Avenue, Colombo 03	18.55	-	333,900,000	-	222,600,000	-
No: 10, Sea Avenue, Colombo 03	19.80	-	346,500,000	-	237,600,000	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03	9.75	3,900	165,750,000	15,600,000	117,000,000	13,650,000
Total (Note 37.2)			1,402,160,000	481,575,000	1,014,910,000	448,141,000

Notes to the Financial Statements

22.6 All Freehold Land and Building owned by the Bank have been revalued by Mr. J.M.S. Bandara, an Independent Chartered Valuation Surveyor having recent experience of the location and the category of the assets valued. Details of Revalued properties are disclosed in Note 22.8. Revaluation surplus arising out of the revaluation has been transferred to Revaluation Reserve.

Significant Un Observable valuation Input
Land: Price Per Perch Rs. 17,000,000 - Rs. 23,500,000/-
Building : Monthly rent per square feet - Rs. 175/-

Significant increase/decrease in estimated price per perch/rent per square feet would result in a significant higher/lower fair value of land and buildings.

Other fair value related disclosures on Revalued Land and Building are provided in Note 37.2.

22.7 The Carrying amount of revalued Land and Building, if they were carried at cost less depreciation, would be as follows;

	2019			2018		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Freehold Land	413,652,558	-	413,652,558	413,652,558	-	413,652,558
Freehold Building	223,252,527	69,271,638	153,980,889	223,252,527	63,690,325	159,562,202
Total	636,905,085	69,271,638	567,633,447	636,905,085	63,690,325	573,214,760

22.8 Details of the Land and Building stated at revalued amounts as at 31st December 2019 are given below;

Location/Address	Valuer Name	Date of Valuation	Method of Valuation	Land		Building	
				Cost	Revalued Amount	Cost	Revalued Amount
				Rs.	Rs.	Rs.	Rs.
No 450, Galle Road, Colombo 03	Mr.J.M.S.Bandara	31st December 2019	Investment Method/ Income Method	183,969,895	556,010,000	212,332,737	465,975,000
No: 08, Sea Avenue, Colombo 03	Mr.J.M.S.Bandara	31st December 2019	Investment Method/ Income Method	106,166,453	333,900,000	-	-
No: 10, Sea Avenue, Colombo 03				82,437,000	346,500,000	-	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03				41,079,210	165,750,000	10,919,790	15,600,000

22.9 A class wise analysis of the cost/fair value of fully depreciated Property, Plant and Equipment of the Bank which are still in use at the date of the Statement of Financial Position are as follows;

	2019 Rs.	2018 Rs.
Office Equipments	258,525,046	259,035,280
Computer Hardware and Equipments	208,049,923	270,747,227
Furniture & Fittings	265,602,420	263,687,095
Motor Vehicles	97,620	97,620
Total	732,275,009	793,567,222

22.10 There were no Property, Plant and Equipment identified as temporarily idle as at the date of the Statement of Financial Position (2018- Nil).

22.11 The following Property, Plant and Equipment were retired from active use as at the Date of the Statement of Financial Position.

	2019 Rs.	2018 Rs.
Computer Hardware and Equipments	17,368,526	21,461,123
	17,368,526	21,461,123

22.12 There were no restrictions on the title of Property, Plant and Equipments as at the Statement of Financial Position date (2018 - Nil).

22.13 There were no items of Property, Plant and Equipments pledged as securities against liabilities as at the Statement of Financial Position date (2018 - Nil).

23 RIGHT-OF-USE ASSETS*

23.1 Assets hold under lease have been recognised as Right-of-Use Assets under SLFRS 16.

	2019 Rs.
Assets as at 1st January 2019 - Effect of adoption of SLFRS 16	1,086,495,125
Impact of New Leases	27,868,486
Amortisation Charge for the Year	(202,526,811)
Assets as at 31st December 2019	911,836,800

23.2 Corresponding liability for the Right- of-Use assets has been recognised under other liabilities.

	2019 Rs.
Lease Liabilities as at 1st January 2019	1,006,839,907
Impact of New Leases	23,711,120
Accretion of interest	101,630,636
Rentals paid during the year	(308,001,450)
Lease Liabilities as at 31st December 2019 (Note 30)	824,180,213

* The amounts for the year ended 31st December 2019 have been prepared in accordance with SLFRS 16: Leases where as prior period figures have not been restated.

23.3 Maturity Analysis of Lease Liabilities

	2019		
	Amount Repayable within one year Rs.	Amount Repayable after one year Rs.	Total Rs.
Gross Lease	247,251,661	937,421,916	1,184,673,577
Finance Charges Allocated to Future Periods	(53,383,442)	(307,109,922)	(360,493,364)
Net Lease Liabilities	193,868,219	630,311,994	824,180,213

23.4 Sensitivity on Assumption in Right-of-Use Assets

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the Right-of-Use assets and Lease Liabilities as at 31st December 2019. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the incremental borrowing rate on the profit or loss and Right-of-Use assets/Lease Liabilities for the year.

	2019			
	Sensitivity Effect on Statement of Financial Position		Sensitivity Effect on Statement of Comprehensive Income	
	Right-of-Use Assets Rs.	Lease Liabilities Rs.	Depreciation Rs.	Interest Expense Rs.
Increase/(Decrease) in Incremental Borrowing Rate				
1%	(23,840,210)	(21,472,422)	(4,628,330)	6,636,158
(1%)	24,944,081	22,349,103	4,434,074	(7,029,052)

24 INTANGIBLE ASSETS

Computer Software

24.1 Cost

	Total Rs.
As at 1st January 2019	559,428,457
Additions	13,207,997
Disposals	-
As at 31st December 2019	572,636,454

24.2 Amortisation

	Total Rs.
As at 1st January 2019	254,345,376
Amortisation Charge for the Year	37,439,104
Disposals	-
As at 31st December 2019	291,784,480

24.3 Net Book Value

	Total Rs.
As at 1st January 2019	305,083,081
As at 31st December 2019	280,851,974

24.4 Intangible Assets include the Cost of Core Banking Software Licenses and Other Software.

24.5 There were no intangible asset items pledged as a security against liabilities as at the date of the Statement of Financial Position (2018 - Nil).

24.6 There were no borrowing costs directly related to intangible assets acquired during the year (2018 - Nil).

24.7 There were no impairment losses recognised to profit or loss during the year with regard to intangible assets (2018 - Nil).

25 OTHER ASSETS

	2019 Rs.	2018 Rs.
Deposits and Prepayments	294,257,310	289,873,364
Prepaid Staff Cost	408,030,803	328,140,367
Other Receivables (Note 25.1)	266,567,032	206,165,473
	968,855,145	824,179,204

25.1 Other receivables includes statutory receivables and other balances due in the ordinary course of business.

26 DUE TO BANKS

	2019 Rs.	2018 Rs.
Call Money Borrowings	136,045,959	980,579,768
Re-finance Borrowings	216,860,262	179,595,889
Balances with Foreign Banks	168,930,121	584,031,188
	521,836,342	1,744,206,845

The Bank has not had any defaults with regard to capital, interest or any other term/condition with regard to above borrowings.

27 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS

	2019 Rs.	2018 Rs.
Due to Depositors (Note 27.1 and Note 27.2)	122,544,024,040	118,627,348,744
	122,544,024,040	118,627,348,744

Notes to the Financial Statements

27.1 Product - wise Analysis

	2019 Rs.	2018 Rs.
Demand Deposits	4,375,635,515	4,871,474,859
Savings Deposits	16,910,775,122	14,404,715,250
Time Deposits	97,528,927,459	94,475,048,539
Certificate of Deposits	3,521,230,309	4,359,722,898
Margin Deposits	207,455,635	516,387,198
Total (Note 27)	122,544,024,040	118,627,348,744

27.2 Currency - wise Analysis

	2019 Rs.	2018 Rs.
Sri Lankan Rupee	111,342,539,400	107,090,457,200
United States Dollar	8,940,127,518	9,369,827,117
Great Britain Pound	1,128,330,753	470,826,151
Australian Dollar	658,804,827	830,050,498
Euro	313,583,868	171,521,061
Others	160,637,674	694,666,717
Total (Note 27)	122,544,024,040	118,627,348,744

28 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEBT SECURITIES HOLDERS

	2019 Rs.	2018 Rs.
Securities Sold under Repurchase Agreements (Note 28.1)	2,382,654,921	3,091,635,968
Unsecured Term Facility Borrowings	9,512,176,841	10,203,968,478
Standing Lending Facility Borrowings	50,010,989	-
	11,944,842,751	13,295,604,446

The Bank has not had any defaults with regard to capital, interest or any other term/condition with regard to above borrowings.

28.1 Securities Sold under Repurchase Agreements

	2019 Rs.	2018 Rs.
Due to Banks	-	1,500,000,000
Due to Other Customers	2,382,654,921	1,591,635,968
Total (Note 28)	2,382,654,921	3,091,635,968

28.2 Unsecured Term Facility Borrowings - Capital

	Senior		Total
	Fixed	Floating	
	Rs.	Rs.	Rs.
As at 1st January 2019	2,061,094,225	8,133,750,000	10,194,844,225
Receipts during the year	-	362,760,000	362,760,000
Repayments during the year	-	(1,000,000,000)	(1,000,000,000)
Exchange Rate Difference	-	(58,725,000)	(58,725,000)
As at 31st December 2019	2,061,094,225	7,437,785,000	9,498,879,225

28.3 Details of Unsecured Term Facility Borrowings as at 31st December 2019 - Capital

Lender	Receipt Date	Maturity Date	Rate of Interest	Amount Outstanding	
				Original Loan Currency	Local Currency
					Rs.
GCPF	01st October 2013	30th September 2020	6 Month LIBOR + 4%	USD 10,000,000	1,813,800,000
GCPF	03rd September 2015	2nd September 2022	6 Month LIBOR + 4%	USD 10,000,000	1,813,800,000
GCPF	06th October 2017	7th October 2024	6 Month LIBOR + 3.75%	USD 2,000,000	362,760,000
GCPF	22nd December 2017	7th October 2024	6 Month LIBOR + 3.75%	USD 5,000,000	906,900,000
MSME	19th December 2016	18th December 2021	3 Month LIBOR + 4%	USD 9,250,000	1,677,765,000
MSME	21st December 2016	19th July 2021	11.50%	Rs. 1,191,000,000	1,191,000,000
MSME	9th July 2018	29th September 2021	11.25%	Rs. 870,094,225	870,094,225
National Savings Bank	04th June 2018	04th June 2020	Weekly AWPLR + 2.5% (Re-priced Quarterly)	Rs. 500,000,000	500,000,000
Commerzbank, Germany	12th December 2019	12th June 2020	6 Month LIBOR + 1.65%	USD 2,000,000	362,760,000
					9,498,879,225

GCPF - Global Climate Partnership Fund S.A. SICAV-SIF
MSME - Micro, Small & Medium Enterprises Bonds S.A.

29 OTHER PROVISIONS AND ACCRUALS

	2019	2018
	Rs.	Rs.
Utility Payables	86,377,769	92,074,624
Other Accruals	101,224,830	116,323,388
	187,602,599	208,398,012

Notes to the Financial Statements

30 OTHER LIABILITIES

	2019 Rs.	2018 Rs.
Cheque Pending Realisation	4,492,219	10,236,962
Claims Payable	242,528,920	194,855,631
Allowance for Impairment on Guarantees and Documentary Credit (Note 30.1)	13,026,964	8,400,315
Defined Benefit Plan - Retiring Gratuity Obligation (Note 31.2)	326,987,404	285,839,742
Lease Liabilities (Note 23.2)*	824,180,213	-
Other Creditors	2,156,210,671	1,809,713,434
	3,567,426,391	2,309,046,084

Other creditors includes tax (other than income tax) & other statutory payables and other miscellaneous payables in the ordinary course of business.

* The amounts for the year ended 31st December 2019 have been prepared in accordance with SLFRS 16: Leases whereas prior period figures have not been restated.

30.1 Provision for Impairment (ECL) on Financial Guarantees and Documentary Credit

	ECL Allowances as at 01/01/2019 Rs.	Charge for the Year Rs.	ECL Allowances as at 31/12/2019 Rs.	ECL Allowances as at 01/01/2018 Rs.	Reversal for the Year Rs.	ECL Allowances as at 31/12/2018 Rs.
Financial Guarantees						
Collective	6,508,612	340,071	6,848,683	14,642,330	(8,133,718)	6,508,612
Documentary Credit						
Collective	1,891,703	4,286,578	6,178,281	8,250,339	(6,358,636)	1,891,703
	8,400,315	4,626,649	13,026,964	22,892,669	(14,492,354)	8,400,315

The nominal values of Financial Guarantees and Documentary Credit are disclosed in Note 42.

All Financial Guarantees and Documentary Credit are considered to be 'stage 1' exposures.

The changes in ECLs of the Financial Guarantees and Documentary Credit were driven by the changes in gross size of the portfolios, changes in PDs', LGDs', CCF's and changes in economic conditions.

31 DEFINED BENEFIT PLAN - RETIRING GRATUITY OBLIGATION

The amounts recognised in the Statement of Comprehensive Income in respect of Defined Benefit Plan Costs are as follows;

31.1 Defined Benefit Plan Expense

	2019 Rs.	2018 Rs.
Service Cost		
Current Service Cost	37,635,802	39,458,480
Interest Expense	34,300,769	27,249,739
Components recognised in the Profit or Loss (Note 10)	71,936,571	66,708,219
Re-measurement of Net Defined Benefit Obligations		
Actuarial (Gains)/Losses	(5,429,059)	(25,531,522)
Components recognised in Other Comprehensive Income	(5,429,059)	(25,531,522)

31.2 Defined Benefit Plan - Retiring Gratuity Obligations

The movements in the present value of the Defined Benefit Plan Obligation are as follows:

	2019 Rs.	2018 Rs.
Balance at the Beginning of the Year	285,839,742	272,497,390
Current Service Cost	37,635,802	39,458,480
Interest Cost	34,300,769	27,249,739
Actuarial (Gains)/Losses Due to Changes in Assumptions	(5,429,059)	(25,531,522)
Benefits Paid during the Year	(25,359,850)	(27,834,345)
Balance at the End of the Year (Note 30)	326,987,404	285,839,742

Actuarial Valuation of Retiring Gratuity Obligation as at 31 December 2019 was carried out by Mr. Pushpakumara Gunasekera, AIAA on behalf of Messrs. Smiles Global (Pvt) Ltd., a firm of professional actuaries using “Projected Unit Credit Method” as recommended by LKAS 19 “Employee Benefits”.

The principal assumptions used in determining the Retiring Benefit Obligation are given below;

	2019	2018
Discount Rate	10 % p.a	12 % p.a
Salary Increment Rate	8 % p.a	9 % p.a

The demographic assumptions underlying the valuation are retirement age (55 years), staff turnover rate (15%), early withdrawal from service, retirement on medical grounds, death before and after retirement, etc. Assumptions regarding future mortality are based on 1967-70 Mortality Table and issued by the Institute of Actuaries, London.

Notes to the Financial Statements

Defined Benefit Plan Obligation is not externally funded, hence no contributions are expected for year 2019. The Defined Benefit Plan Obligation is recorded under 'Other Liabilities' in the Statement of Financial Position. Actuarial Gains/(Losses) on Defined Benefit Plan is recognised in Other Comprehensive Income for the year.

31.3 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement as at 31st December 2019. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment rate on the profit or loss and Retiring Gratuity obligation for the year.

		2019		2018	
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income (OCI) Rs.	Sensitivity Effect on Defined Benefit Obligation Rs.	Sensitivity Effect on Statement of Comprehensive Income (OCI) Rs.	Sensitivity Effect on Defined Benefit Obligation Rs.
1%	-	13,824,240	(13,824,240)	10,422,916	(10,422,916)
(1%)	-	(15,133,669)	15,133,669	(11,307,941)	11,307,941
-	1%	(16,775,545)	16,775,545	(12,561,795)	12,561,795
-	(1%)	15,567,793	(15,567,793)	11,758,036	(11,758,036)

31.4 Maturity Profile of Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at date of Statement of Financial Position is given below;

	2019	2018
Weighted Average Duration of Defined Benefit Obligation (Years)	4.57	4.61
Average Time to Benefit Payout (Years)	6.16	5.51

31.5 Distribution of Defined Benefit Obligation Over Future Lifetime

The following table demonstrates distribution of the future working lifetime of the Defined Benefit Obligation as at the Statement of Financial Position Date.

	2019 Rs.	2018 Rs.
Less than 1 year	11,866,498	12,096,231
Between 1 - 2 years	16,860,060	8,641,174
Between 2 - 5 years	78,287,596	91,791,324
Over 5 years	219,973,250	173,311,013
	326,987,404	285,839,742

32 DEBENTURES ISSUED

32.1 Amortised Cost

	2019 Rs.	2018 Rs.
Unsecured, Subordinated, Redeemable Debentures	-	3,045,450,903
Unsecured, Senior, Redeemable Debentures	-	2,763,735,250
Total	-	5,809,186,153

All above debentures were denominated in Sri Lankan Rupees.

32.2 Capital

	Subordinated		Senior		
	Fixed Rs.	Floating Rs.	Fixed Rs.	Floating Rs.	Total Rs.
As at 1st January 2019	3,000,000,000	-	1,855,674,100	835,181,200	5,690,855,300
Redeemed during the Year	(3,000,000,000)	-	(1,855,674,100)	(835,181,200)	(5,690,855,300)
As at 31st December 2019	-	-	-	-	-

The Bank has not had any defaults of principal, interest or other breaches with regard to debentures during the year.

33 STATED CAPITAL

Ordinary Voting Shares

	2019		2018	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
As at 1st January	442,561,629	3,614,253,304	442,561,629	3,614,253,304
Shares Issued during the Year	-	-	-	-
As at 31st December	442,561,629	3,614,253,304	442,561,629	3,614,253,304

34 REVALUATION RESERVES

	Rs.
As at 1st January 2018	630,633,294
Realisation of Revaluation Reserve	(6,820,753)
As at 1st January 2019	623,812,541
Revaluation of Freehold Land and Building	327,666,933
Realisation of Revaluation Reserve	(6,820,753)
As at 31st December 2019	944,658,721

35 STATUTORY RESERVE FUND

	Rs.
As at 1st January 2018	374,106,451
Transferred during the Year 2018	77,082,142
As at 1st January 2019	451,188,593
Transferred during the Year 2019	87,528,455
As at 31st December 2019	538,717,048

35.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required by Section 20 (1) & (2) of the Banking Act No. 30 of 1988. A sum equivalent to 5% of the Profit after tax (Profit for the Year) should be transferred to the Reserve until the reserve is equal to 50% of the paid up capital of the Bank and thereafter a sum equivalent to 2% of such profits until the amount of reserve is equal to the paid up capital of the Bank. This Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

36 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

Financial assets and financial liabilities are measured on an ongoing basis at either fair value or amortised cost. The summary of significant accounting policies in Note 2 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category as defined in SLFRS 9 - Financial Instruments and by Statement of Financial Position heading:

As at 31st December 2019	Financial Assets at Fair Value through Profit or Loss	Financial Assets at Fair Value through Other Comprehensive Income	Financial Assets and Liabilities at Amortised Cost	Derivative Financial Instruments at Fair Value	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	1,708,269,215	-	1,708,269,215
Balances with Central Bank of Sri Lanka	-	-	5,333,199,577	-	5,333,199,577
Derivative Financial Instruments	-	-	-	443,298	443,298
Financial Assets at FVPL	168,176,768	-	-	-	168,176,768
Loans and Advances	-	-	111,187,855,278	-	111,187,855,278
Debt and Other Instruments	-	-	30,080,088,461	-	30,080,088,461
Financial Assets at FVOCI	-	6,157,847	-	-	6,157,847
Total Financial Assets	168,176,768	6,157,847	148,309,412,531	443,298	148,484,190,444
Financial Liabilities					
Due to Banks	-	-	521,836,342	-	521,836,342
Derivative Financial Instruments	-	-	-	107,293	107,293
Due to Depositors	-	-	122,544,024,040	-	122,544,024,040
Due to Debt Securities Holders	-	-	11,944,842,751	-	11,944,842,751
Other Liabilities	-	-	863,074,300	-	863,074,300
Total Financial Liabilities	-	-	135,873,777,433	107,293	135,873,884,726

As at 31st December 2018	Financial Assets at Fair Value through Profit or Loss	Financial Assets at Fair Value through Other Comprehensive Income	Financial Assets and Liabilities at Amortised Cost	Derivative Financial Instruments at Fair Value	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	2,214,106,348	-	2,214,106,348
Balances with Central Bank of Sri Lanka	-	-	6,481,993,762	-	6,481,993,762
Derivative Financial Instruments	-	-	-	209,701	209,701
Financial Assets at FVPL	11,628,595	-	-	-	11,628,595
Loans and Advances	-	-	108,168,861,465	-	108,168,861,465
Debt and Other Instruments	-	-	34,074,557,579	-	34,074,557,579
Financial Assets at FVOCI	-	6,157,847	-	-	6,157,847
Total Financial Assets	11,628,595	6,157,847	150,939,519,154	209,701	150,957,515,297
Financial Liabilities					
Due to Banks	-	-	1,744,206,845	-	1,744,206,845
Derivative Financial Instruments	-	-	-	114,235	114,235
Due to Depositors	-	-	118,627,348,744	-	118,627,348,744
Due to Debt Securities Holders	-	-	13,295,604,446	-	13,295,604,446
Debenture Issued	-	-	5,809,186,153	-	5,809,186,153
Other Liabilities	-	-	28,617,325	-	28,617,325
Total Financial Liabilities	-	-	139,504,963,513	114,235	139,505,077,748

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

37 FAIR VALUE OF FINANCIAL INSTRUMENTS

37.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

(a) Derivatives

Derivative products valued with market-observable inputs are mainly currency swaps and forward foreign exchange contracts. Such valuations incorporate various inputs such as foreign exchange spot and forward rates.

(b) Financial Assets at Fair Value through Other Comprehensive Income

Financial Assets at Fair Value through Other Comprehensive Income are valued using valuation techniques or pricing models primarily consisted of unquoted equities.

(c) Financial Assets at Fair Value through Profit or Loss

Quoted Equities and Sri Lanka Government Securities included in Financial Assets at Fair Value through Profit or Loss are valued using market prices.

37.2 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

a) The following table shows an analysis of financial instruments and non financial assets and liabilities recorded at fair value by level of fair value hierarchy.

As at 31st December 2019	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	443,298	-	443,298
Financial Assets at Fair Value through Profit or Loss				
- Equities	-	-	-	-
- Sri Lanka Government Foreign Currency Securities	168,176,768	-	-	168,176,768
Financial Assets at FVOCI	-	6,157,847	-	6,157,847
	168,176,768	6,601,145	-	174,777,913
Non Financial Assets				
Land - Revalued (Note 22.5)	-	-	1,402,160,000	1,402,160,000
Building - Revalued (Note 22.5)	-	-	481,575,000	481,575,000
	-	-	1,883,735,000	1,883,735,000
Financial Liabilities				
Derivative Financial Instruments	-	107,293	-	107,293
	-	107,293	-	107,293

As at 31st December 2018	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	209,701	-	209,701
Financial Assets at Fair Value through Profit or Loss				
- Equities	11,628,595	-	-	11,628,595
- Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	-	-	-	-
Financial Assets at FVOCI	-	6,157,847	-	6,157,847
	11,628,595	6,367,548	-	17,996,143
Non Financial Assets				
Land - Revalued (Note 22.5)	-	-	1,014,910,000	1,014,910,000
Building - Revalued (Note 22.5)	-	-	429,017,945	429,017,945
	-	-	1,443,927,945	1,443,927,945
Financial Liabilities				
Derivative Financial Instruments	-	114,235	-	114,235
	-	114,235	-	114,235

b) The following table shows the total gains and losses (excluding interest) recognised in profit or loss during the year relating to assets and liabilities held at the year end.

	Net Gains from Trading	
	2019 Rs.	2018 Rs.
Financial Assets		
Derivative Financial Instruments	336,005	95,465
Financial Assets at Fair Value through Profit or Loss		
- Equities	5,472,280	(478,824)
- Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	-	(6,531,315)
- Sri Lanka Government Foreign Currency Securities	983,125	-
	6,791,410	(6,914,674)

c) Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

As at 31st December	2019		2018	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial Assets				
Cash and Cash Equivalents	1,708,269,215	1,708,269,215	2,214,106,348	2,214,106,348
Balances with Central Bank of Sri Lanka	5,333,199,577	5,333,199,577	6,481,993,762	6,481,993,762
Loans and Advances -at Amortised Cost	111,187,855,278	111,322,699,134	108,168,861,465	108,379,124,570
Debt and Other Instruments - at Amortised Cost	30,080,088,461	30,317,126,927	34,074,557,579	33,873,530,275
Total Financial Assets	148,309,412,531	148,681,294,853	150,939,519,154	150,948,754,955
Financial Liabilities				
Due to Banks	521,836,342	521,836,342	1,744,206,845	1,744,206,845
Due to Depositors - at Amortised Cost	122,544,024,040	119,704,850,684	118,627,348,744	118,234,345,392
Due to Debt Security holders - at Amortised Cost	11,944,842,751	11,944,842,751	13,295,604,446	13,295,604,446
Debentures Issued	-	-	5,809,186,153	5,809,186,153
Other Liabilities	863,074,300	863,074,300	28,617,325	28,617,325
Total Financial Liabilities	135,873,777,433	133,034,604,077	139,504,963,513	139,111,960,161

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair value. This assumption is applied for Cash and Cash Equivalents, Balances with Central Bank of Sri Lanka, Placements with Banks and Securities Purchased under Re-sale Agreements. This assumption is also applied to demand deposits, savings accounts without a specific maturity, floating rate instruments and fixed rate instruments having maturities within 12 months.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities (other than assets and liabilities with maturities within 12 months) carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

38 RISK MANAGEMENT

38.1 Introduction

Risk is inherent in Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls as per the risk appetite of the Bank. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his/her responsibilities. The Bank's exposure to risk could be broadly categorised into credit risk, market risk, liquidity risk and operational risk. In addition, the impact of other risks such as strategic risk, reputational risk, compliance risk and legal risk are also monitored to avoid any additional impact on the Bank. The impact on risk could be segregated as external or internal according to the nature of the business. External risks may be due to changes in political, regulatory and other changes in the industry could impact the strategic processes of the Bank.

Risk Management Objectives, Policies and Processes

The foremost objective of the risk management is to assess the uncertainty of the future in order to make the best possible decision at present ensuring a return with the minimum impact on the financial position and profitability. The Bank's all risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Further, all risk management policies are updated regularly to reflect changes in market conditions, products and services offered by the Bank and requirements of the regulators.

Measurement of financial instruments is done with proper assessment of expectation in future cash flows. The most imperative methods of ascertaining the risk of such instruments is done by way of assessing the future settlement plan. Early identification of any issues had been the key factor to arrest and addresses the challenges of the environment and the expectation of the Bank. Having identified the categories of the measurements, the mitigating controls were introduced for better portfolio management. Separate management methods were introduced as per collateral, risk rating, and cash flow attached to each instruments. Stringent measures were introduced for items which needed close monitoring.

Risk Governance and Risk Management Strategies & Systems

The Bank's overall responsibility for risk management falls on the Board of Directors. Accordingly, the Bank has established a robust and pervasive risk culture and clear policies that defines the responsibilities of Corporate and Senior Management personnel, subject to the oversight of the Board. There are committees at both the Board and the Management levels to ensure that all risks are appropriately managed and risk limits are established based on the appetite of the Bank.

Board Audit Committee

The Board Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls, risk management systems, internal audit process, the Bank's process for monitoring compliance with legal and regulatory requirements, appointment of external auditors, determination of their fees, ensuring their objectivity and independence and maintaining high standards of good Corporate Governance practices to conform to highest ethical standards. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both adhoc and regular reviews of risk management controls and procedures in accordance with the Audit Plan, the results of which are reported to the Audit Committee.

Board Credit Committee

The Board of Directors has delegated the responsibility for the oversight of credit management functions of the Bank to the Board Credit Committee. The Board Credit Committee discharges its main responsibilities to operate a sound credit granting process, maintain an appropriate credit administration, maintain adequate controls over credit risk, identification and administration of problem advances, proper evaluation of new business opportunities, cyclical aspects of internal and external economy and review of facilities sanctioned by the Committee and issue of further instructions, if necessary.

Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee mainly looks into the overall risk management aspects of the Bank. The Committee adopts risk strategies, frameworks, and policies and is also responsible for implementation of these strategies and plans. The Committee meets on quarterly basis and discusses the predetermined risk goals implemented as per the Bank wide risk management policy adopted by the Board and review the performances of the management committees. Risk dashboard, risk aggregation reports along with stress testing methodology are used to address the overall risk level of the Bank.

Board Related Party Transaction Review Committee

The Bank constituted Board Related party Transaction Review committee in order to assist the Board to review all related party transactions performed by the Bank. The committee monitors Bank's compliance with the Colombo Stock Exchange listing rules which ensure interest of the shareholders when entering into the related party transactions. The Committee independently reviews all related party transactions and provides /observations to the Board of Directors if deem necessary.

Board Strategic Planning Committee

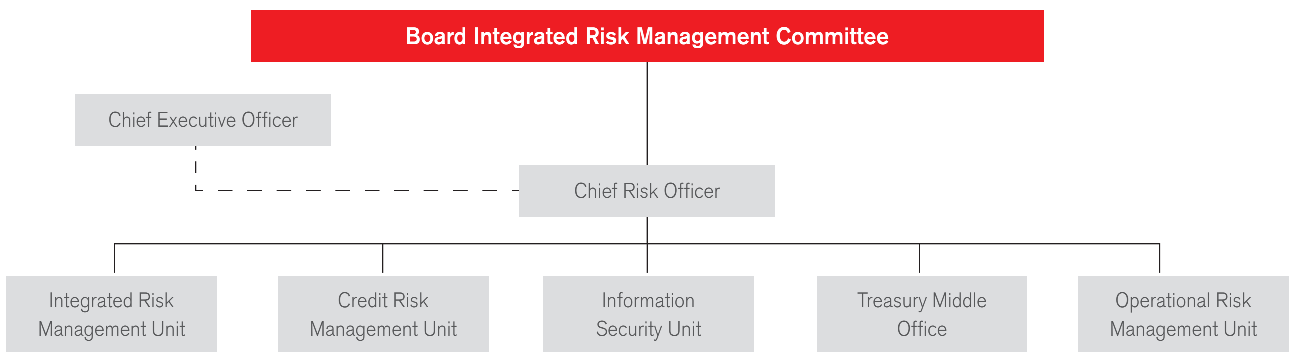
The Board Strategic Planning Committee is formed to ensure that sufficient attention is devoted to the strategic planning process at the Board level. The Committee discharges it's main responsibilities by approving the periodic strategic plan & significant amendments to the existing strategic plan and recommending to the Board, ensuring that the annual budget is prepared to accomplish the goals and objectives of the strategic plan and recommending the same to the Board, reviewing the actual performance against the strategic plan as well as the annual budget, reviewing the appropriateness of current vision, mission and strategic positioning of the Bank, approving all strategic investment decisions such as mergers and acquisitions and recommending the same to the Board, reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets.

Board Recoveries Committee

The Board Recoveries Committee is formed to inculcate top to bottom approach in minimising Non-Performing Loans (NPLs) and maximising the profitability of the Bank since recoveries indicate a paramount important for the overall performance of the bank. The Committee was formed for the purpose of ensuring sound recovery function & minimising potential non-performing advances to achieve sustainable growth and stability over the period of time. The main duties of the committee include establish appropriate recovery strategies for NPLs and delinquent credit of the Bank, review performances against recovery targets that are agreed with respective Area Mangers and department/product heads of the Bank and take necessary actions to upgrade the recovery process of the Bank.

Risk Management Function

Risk Management function which is independent of the business units, performs the role of implementing risk management policies and procedures. Risk Management Unit headed by the Chief Risk Officer is responsible and accountable for controlling of risks, compliance of risk policies and procedures of the Bank. The structure of the risk management unit is as follows;



Each unit monitors the impact on separate risks as specified. These units function independent of business units and submits its observations to the Chief Risk Officer. Reports are generated daily, weekly, monthly and quarterly basis as per the requirements and breaches, if any, are notified for relevant action. Exceptions are also reported to the Board Integrated Risk Management Committee with relevant actions to be taken to address them.

Risk Measurement and Reporting Systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits 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, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The Compliance function is also an independent function which performs the role of safeguarding the Bank against regulatory and reputational risks. It does this through appropriate polices and procedures for compliance with all applicable laws and regulations and embedding them into the internal control system. The policies set out the procedures for safeguarding the Bank from being sanctioned or fined for regulatory non-compliances. The Bank's Compliance Department also conducts training to familiarise staff with their compliance obligations.

The Bank's risks are recorded according to the breaches that have taken place, expected /predicted losses and unexpected cases which may arise in future. The estimated figures of cases are weekly monitored for prevention and mitigations. These events are mainly taken into account according to the internal risk management process established by the Bank. Monitoring of risks is done on predetermined limits as per policies. Management Information System reports are generated to the Corporate Management based on these risks indicators. Certain industries are specially highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted based on their daily, weekly and monthly monitoring to the Board/Management committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports will indicate aggregate credit exposure, credit metric forecasts, hold limit exceptions, as well as liquidity ratios. Further elaborations will be done on industry, concentration, customer and geographic risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored weekly for adherence. Delegated Authority limits have been imposed to each business units to control exposure to risks. Those outwit such limits are referred to Credit Risk Management Committee/Board Credit Committee for approval.

38.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the Credit Risk Department of the Bank's independent Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counter-party limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Management of Credit Risk

The primary objective of credit risk management is to enable the Bank to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved credit appetite. The Bank has a well defined credit policy approved by the Board of Directors which spells out the credit culture of the Bank, specifying target markets for lending and areas to avoid. The policy is implemented through the credit process, which is set out with clear guidelines and procedures. As a further step towards improving and maintaining uniformity of credit submissions, the Bank has established credit clusters (under area offices) with well trained and experienced staff to evaluate and carry out periodic review of credit facilities.

The Bank's credit risk management process broadly encompasses the following;

a) Loan origination and risk appraisal comprises initial screening and credit appraisal focused on borrowers' ability to meet their commitments in a timely manner. The internal risk rating is an important part of the risk assessment of the customers and incorporated in the credit decision process. This numerical rating denotes the borrowers' strength relating to repayment ability, financial condition, industry/business outlook and management quality. A separate alphabetical rating is assigned to customers as the security indicator based on Bank's approved policy on security. The Bank minimises risk by granting credit facilities for high rated customers.

b) Loan approval and sanction of credit facilities - Clear guidelines and policies have been established for loan approvals/renewals within delegated credit approval authorities.

c) Credit administration and disbursement is performed by Credit Administration Unit, which is an independent unit to ensure clear segregation of duties from business units and ensures origination and disbursement of credit are made only after stipulated conditions have been met and relevant security documents are obtained.

d) Post disbursement credit monitoring unit monitors all overdue credit facilities reported to 'underperforming category' to facilitate timely collections.

e) Credit Measurement and Monitoring - Credit Risk Management Unit measures and tracks the early warning signals pertaining to deterioration of financial health of the borrowers and customers who need special attention/monitoring is identified and their financial behaviours is discussed at the Credit Risk Management Committee and the Board Credit Committee levels.

f) Non performing advances are managed by the Legal and Recoveries Departments. These units are responsible for all aspects of the non performing credit, restructuring of the credit, monitoring the value of the applicable collateral & liquidation, scrutiny of legal documents liaising with the customer until all legal recovery matters are finalised, effective integration with Credit Risk and Credit Administration Unit for follow-up action.

The Bank's credit risk management process is articulated in credit policies, which are approved by the Board of Directors. Credit policies lay down the conditions and guidelines for the granting, maintenance, monitoring and management of credit, at both individual transaction and portfolio levels. These policies are documented, well defined, consistent with prudent practices & regulatory requirements and adequate for the nature and complexity of Bank's activities. Limits have been prescribed for the Bank's exposure to any single borrower, group of specific borrowers or specific industries/sectors in order to avoid concentration of credit risk.

A well structured loan review mechanism is in place and a comprehensive review is carried out at least annually for individually significant loans and identification of customers that require special attention are identified and more frequent updates are carried out for 'Watch List' exposures.

The Bank uses collateral for credit risk mitigation. The requirements for collateral is set forth in the credit policies and procedures of the Bank. The collaterals are evaluated independently by professional valuers approved by the Head Office Credit Committee and the Board Credit Committee.

38.2.1 Credit-related commitments risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and financial guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

38.2.2 Impairment Assessment

For accounting purposes, the Bank uses an Expected Credit Loss (ECL) model for the recognition of losses on impaired financial assets. This means that losses are recognised when objective evidence which provide significant increase in credit risk at the end of reporting period. Triggering events include the following:

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

- The Bank's definition and assessment of default and cure (Note 38.2.2.1).
- An explanation of the Bank's PD estimating process (Note 38.2.2.2)
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default (Notes 38.2.2.2, 38.2.2.3 and 38.2.2.4 respectively)
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 38.2.2.5)
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note: 38.2.2.6)
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note: 2.8.6.2)

38.2.2.1 Definition of Default and Cure

The Bank considers a financial instrument defaulted, therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In addition to above the bank considers all 'Non Performing Credit Facilities' and 'Rescheduled Credit Facilities' as defined in the Banking Act Direction No.03 of 2008 on 'Classification of Loans and Advances, Income Recognition and Provisioning' as 'Stage 3 Credit Facilities'. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default.
- The borrower requesting emergency funding from the Bank.
- The borrower having past due liabilities to public creditors or employees.
- The borrower is deceased.
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral.
- A material decrease in the borrower's turnover or the loss of a major customer.
- A covenant breach not waived by the Bank.
- The debtor filing for bankruptcy application/protection.
- Debtor's listed debt or equity suspended/delisted at the primary Stock Exchange.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present as at the reporting date. The decision whether to classify an asset as 'Stage 2' or 'Stage 1' once cured depends on the updated credit grade at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than requirement for forbearance which is explained in Note 2.8.10.

38.2.2.2 Probability of Default (PD)

The Bank estimate the Probability of Defaults (PD's) based on the basis of historical information. The Bank's PD's are calculated on the basis of on 'Days Past Due' (DPD) using 'Risk Migration Matrix Method'.

Details of the Bank's PD's are given below

As at 31st December 2019	Stage 1 %	Stage 2 %	Stage 3 %
Loans and Advances			
Term Loans	0.33 - 15.25	9.68 - 66.88	100.00
Overdrafts	3.12 - 7.03	8.98 - 15.72	100.00
Trade Finance	0.88 - 2.76	9.29 - 17.78	100.00
Lease Rentals Receivable	2.37 - 2.89	3.40 - 8.73	100.00
Others	0.10 - 26.25	0.39 - 30.23	100.00
Other Financial Assets			
Government of Sri Lanka Securities	4.00	-	-
Other Financial Assets	0.0001 - 6.00	-	-

As at 31st December 2018	Stage 1 %	Stage 2 %	Stage 3 %
Loans and Advances			
Term Loans	0.35 - 17.58	9.14 - 79.81	100.00
Overdrafts	2.87 - 7.31	7.32 - 17.16	100.00
Trade Finance	1.16 - 3.24	12.37 - 19.46	100.00
Lease Rentals Receivable	2.70 - 3.49	4.29 - 19.07	100.00
Others	0.08 - 9.70	0.22 - 46.67	100.00
Other Financial Assets			
Government of Sri Lanka Securities	4.00	-	-
Other Financial Assets	0.0001 - 6.00	-	-

PD's are then adjusted for SLFRS 9 ECL calculations to incorporate forward looking information and SLFRS 9 stage classification of the exposure. This is repeated for each economic scenario as appropriate.

38.2.2.3 Exposure at Default (EAD)

The exposure at default 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. EAD for credit cards and other revolving facilities is set out in Note 2.8.6.5.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. 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, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modeling 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 the Bank's models.

38.2.2.4 Loss Given Default (LGD)

The Loss Given Default is an estimate of the loss arising in the case where default occurs at a given time.

The Bank segments its lending portfolio 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 as well as borrower characteristics.

38.2.2.5 Significant Increase in Credit Risk (SICR)

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk in accordance with the qualitative criteria assessment on significant increase in credit risk for an asset. In certain cases, the Bank may also consider that events explained in below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Qualitative criteria used for SICR assessment is given below;

- Modification of terms (restructuring) resulting in concessions including extensions, deferment of payments etc. due to deficiency of the borrower.
- The customer is deceased or insolvent.
- When the bank is unable to find or contact the customer.
- A reasonable and supportable forecasts of future economic conditions that adversely affects the performance of the customer.
- A significant change in geographical locations or a customer or a natural catastrophes that adversely impacts the customer performance.
- A significant fall in the value of the underlying collaterals.
- An illegal disposal of mortgaged assets.
- A major fine or a penalty imposed on the customer.
- Significant changes in an actual or expected reductions in borrowers economic incentives to make scheduled contractual payments.
- Undue delay in submission of audited financial statements.
- Modified external audit opinion on financial statements.
- Continuous significant cash flows problems.
- A significant increase in financial gearing.
- More than 50% decline in borrowers Turnover or Profit before tax over previous year.
- Erosion of borrowers net-worth by 25% over the previous year.
- A significant non compliance with regulatory requirements.
- A change in laws and regulations that significantly affects customer's performance.
- A material litigation against the customer that may significantly affects the customer performance or any other factor that affects the going concern on the company.
- At least 1 year delay in commencement of commercial operations/a major projects of the customer.
- Downgrade of Bank's internal risk rating during past 12 months.
- Downgrade of external credit rating during past 12 months.
- Availability of any other factor that suggest the borrower will not be able to service the loan as agreed or any other factor that signifies that credit risk of the borrower has been increased significantly.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 38.2.2.6), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

38.2.2.6 Grouping Financial Assets Measured on Collective Basis

As explained in Note 2.8.6.1, the Bank calculates ECL's either on collective or individual basis.

Allowances are assessed collectively for losses on Loans and Advances that are not individually significant and for individually significant Loans and Advances that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience. However, when there are significant market developments, the Bank would include macro-economic factors within its assessments. These factors include GDP growth rate, unemployment rates, inflation rate, exchange rates, changes in laws & regulations and other data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio. Allowances are evaluated separately at each reporting date with each portfolio.

The Bank groups exposures into smaller homogeneous portfolios, based on the internal and external characteristics of the loans and advances, as described below;

- Product Type
- Borrowers' Business Segment Type
- Borrowers' Industry Type
- Collateral Type
- Exposure Value

38.2.3 Analysis of ECL Model under Multiple Economic Scenarios

The following table outlines the impact of multiple economic scenarios on the allowance for impairment on Financial Assets;

As at 31st December 2019	Loans & Advances - At Amortised Cost Rs.
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	3,492,311,339
Scenario B	
Base case - 25%, Upside - 25%, Downside - 50%	3,505,977,193
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	13,665,854
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	3,492,311,339
Scenario C	
Base case - 40%, Upside - 40%, Downside - 20%	3,462,786,738
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(29,524,601)

As at 31st December 2018	Loans & Advances - At Amortised Cost Rs.
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	2,959,362,092
Scenario B	
Base case - 25%, Upside - 25%, Downside - 50%	2,974,384,749
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	15,022,657
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	2,959,362,092
Scenario C	
Base case - 40%, Upside - 40%, Downside - 20%	2,924,530,080
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(34,832,012)

The application of multiple economic scenarios does not have any material impact on impairment allowances on other classes of financial assets, financial guarantees or documentary credit.

38.2.4 Analysis of Maximum Exposure to Credit risk and Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The Bank obtains cash, gold, securities, property, guarantees, other movable and immovable property as collateral against lending. An approved list of acceptable securities and the applicable percentage of cash securities are defined as per the Credit Policy. These Collateral are evaluated independently by professional valuers. The management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose off repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

38.2.5 Forebone Loans

From a risk management point of view, once an asset is forebone, the Bank's Recoveries Department continues to monitor exposure until it is completely derecognised.

The bank treats all forebone loans as 'stage 3' assets.

The table below shows the details of the forebone loans with the related modification loss suffered by the bank during the year.

As at 31st December 2019	2019 Rs.	2018 Rs.
Amortised Cost of Forebone Financial Assets (Modified during the Year)	2,367,040,354	442,005,268
Net Modification Loss	3,032,002	1,426,175

38.2.6 Maximum Exposure to Credit risk

31st December 2019	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Financial Assets		
Cash and Cash Equivalents	1,708,269,215	1,708,269,215
Balances with Central Bank of Sri Lanka	5,333,199,577	5,333,199,577
Derivative Financial Instruments	443,298	443,298
Loans and Advances -at Amortised Cost	117,503,175,729	16,808,275,163
Debt and Other Instruments - at Amortised Cost	30,206,445,904	30,142,888,439
Financial Assets- at Fair Value through Other Comprehensive Income	6,157,847	6,157,847
	154,757,691,570	53,999,233,539
Other Credit Exposures		
Documentary Credit	2,768,702,557	2,711,077,680
Guarantees	3,069,132,632	2,704,949,589
Undrawn Credit Commitments*	14,953,647,649	14,953,647,649
	20,791,482,838	20,369,674,918
	175,549,174,408	74,368,908,457

31st December 2018	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Financial Assets		
Cash and Cash Equivalents	2,214,106,348	2,214,106,348
Balances with Central Bank of Sri Lanka	6,481,993,762	6,481,993,762
Derivative Financial Instruments	209,701	209,701
Loans and Advances -at Amortised Cost	113,494,424,234	19,077,605,987
Debt and Other Instruments - at Amortised Cost	34,158,389,212	33,310,118,368
Financial Assets- at Fair Value through Other Comprehensive Income	6,157,847	6,157,847
	156,355,281,104	61,090,192,013
Other Credit Exposures		
Documentary Credit	868,487,803	672,298,292
Guarantees	2,973,676,651	2,739,092,515
Undrawn Credit Commitments*	16,829,617,055	16,829,617,055
	20,671,781,509	20,241,007,862
	177,027,062,613	81,331,199,875

*Credit Risk mitigants relating to undrawn credit commitments are netted off against utilised portion of respective credit facility.

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

38.2.7 Credit Quality by Class of Financial Assets

The Bank manages the credit quality of financial assets using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

31st December 2019	Not Past Due	Past due							Individually Impaired	Total
		1-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	361-540 Days	Over 540 Days		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,709,649,763	-	-	-	-	-	-	-	-	1,709,649,763
Balances with Central Bank of Sri Lanka	5,333,199,577	-	-	-	-	-	-	-	-	5,333,199,577
Derivative Financial Instruments	443,298	-	-	-	-	-	-	-	-	443,298
Financial Assets at Fair Value through Profit or Loss	168,176,768	-	-	-	-	-	-	-	-	168,176,768
Loans and Advances -at Amortised Cost	79,373,466,912	15,620,719,468	10,110,982,382	3,302,356,488	748,147,510	1,738,663,995	710,302,612	2,083,925,954	3,814,610,408	117,503,175,729
Debt and Other Instruments - at Amortised Cost	30,206,445,904	-	-	-	-	-	-	-	-	30,206,445,904
Financial Assets at FVOCI	6,157,847	-	-	-	-	-	-	-	-	6,157,847
Total	116,797,540,069	15,620,719,468	10,110,982,382	3,302,356,488	748,147,510	1,738,663,995	710,302,612	2,083,925,954	3,814,610,408	154,927,248,886

31st December 2018	Not Past Due	Past due							Individually Impaired	Total
		1-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	361-540 Days	Over 540 Days		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	2,214,467,464	-	-	-	-	-	-	-	-	2,214,467,464
Balances with Central Bank of Sri Lanka	6,481,993,762	-	-	-	-	-	-	-	-	6,481,993,762
Derivative Financial Instruments	209,701	-	-	-	-	-	-	-	-	209,701
Financial Assets at Fair Value through Profit or Loss	11,628,595	-	-	-	-	-	-	-	-	11,628,595
Loans and Advances -at Amortised Cost	69,166,079,097	21,346,628,932	12,276,753,910	3,924,681,219	797,507,971	750,638,107	389,777,401	1,394,740,639	3,447,616,958	113,494,424,234
Debt and Other Instruments - at Amortised Cost	34,158,389,212	-	-	-	-	-	-	-	-	34,158,389,212
Financial Assets at FVOCI	6,157,847	-	-	-	-	-	-	-	-	6,157,847
Total	112,038,925,678	21,346,628,932	12,276,753,910	3,924,681,219	797,507,971	750,638,107	389,777,401	1,394,740,639	3,447,616,958	156,367,270,815

SLFRS 7 : Financial Instruments : Disclosures specifically require the disclosure of quality of loans that are neither impaired nor past due and an analysis of the age of financial assets that are past due but not impaired as at the reporting date. The Bank consider any amounts uncollected for one day or more beyond their contractual due date as 'past due'.

Individually Impaired Loans and Advances/Financial Assets

All individually significant Loans and Advances/Financial Assets which the Bank determines that there is objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as 'Impaired Loans and Advances/Financial Assets'.

Past Due Loans and Advances/Financial Assets

Past Due Loans and Advances/Financial Assets are those with contractual interest or principal payments are 'past due', but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed, level of security/collateral available and significance of the financial asset.

38.2.8 Credit Risk Exposure for Each Internal Borrower Risk Rating

The Bank's policy is to maintain accurate and consistent borrower risk ratings across the lending portfolio. This facilitates focused management of the applicable risks and comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of quantitative and qualitative factors to provide the main inputs for the measurement of counterparty risks.

38.2.9 Analysis of Risk Concentration

38.2.9.1 Concentration by Counterparty

The Bank's concentrations of risks are managed by client/counterparty and by industry sector. The maximum credit exposure to any customer or a group counterparty as of 31st December 2019 was Rs. 2,200,000,000/- (2018: Rs. 2,260,521,000/-), before taking account of collateral.

Notes to the Financial Statements

38.2.9.2 Industry Analysis

31st December 2019	Government Rs.	Agriculture, Forestry and Fishing Rs.	Manufacturing Rs.	Tourism Rs.	Transportation and Storage Rs.	Construction & Housing Rs.	Wholesale and Retail Sale Rs.
Cash and Cash Equivalents	1,475,276,403	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	5,333,199,577	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Financial Assets at FVPL	168,176,768	-	-	-	-	-	-
Loans and Advances -at Amortised Cost	-	15,206,944,296	11,389,229,391	3,182,022,703	687,131,895	31,749,229,002	18,645,860,270
Debt and Other Instruments - at Amortised Cost	28,523,451,683	-	-	-	-	506,020,773	-
Financial Assets at FVOCI	-	-	-	-	-	-	-
	35,500,104,431	15,206,944,296	11,389,229,391	3,182,022,703	687,131,895	32,255,249,775	18,645,860,270

31st December 2018	Government Rs.	Agriculture, Forestry and Fishing Rs.	Manufacturing Rs.	Tourism Rs.	Transportation and Storage Rs.	Construction & Housing Rs.	Wholesale and Retail Sale Rs.
Cash and Cash Equivalents	1,394,232,445	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	6,481,993,762	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Financial Assets at FVPL	-	-	-	-	-	-	-
Loans and Advances -at Amortised Cost	-	12,285,165,041	13,105,002,332	3,352,116,185	696,809,184	30,827,375,424	18,502,641,028
Debt and Other Instruments - at Amortised Cost	31,690,681,610	-	-	-	-	506,178,082	-
Financial Assets at FVOCI	-	-	-	-	-	-	-
	39,566,907,817	12,285,165,041	13,105,002,332	3,352,116,185	696,809,184	31,333,553,506	18,502,641,028

	Information Technology and Communication Services	Financial Services	Infrastructure Development	Professional, Scientific and Technical Activities	Arts, Entertainment and Recreation	Education	Health Care, Social Services and Support Service	Consumption	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	-	234,373,360	-	-	-	-	-	-	1,709,649,763
	-	-	-	-	-	-	-	-	5,333,199,577
	-	443,298	-	-	-	-	-	-	443,298
	-	-	-	-	-	-	-	-	168,176,768
	390,483,063	6,413,058,748	187,708,139	1,226,686,609	298,821,866	678,092,841	291,254,902	27,156,652,004	117,503,175,729
	-	1,176,973,448	-	-	-	-	-	-	30,206,445,904
	-	6,157,847	-	-	-	-	-	-	6,157,847
	390,483,063	7,831,006,701	187,708,139	1,226,686,609	298,821,866	678,092,841	291,254,902	27,156,652,004	154,927,248,886

	Information Technology and Communication Services	Financial Services	Infrastructure Development	Professional, Scientific and Technical Activities	Arts, Entertainment and Recreation	Education	Health Care, Social Services and Support Service	Consumption	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	-	820,235,019	-	-	-	-	-	-	2,214,467,464
	-	-	-	-	-	-	-	-	6,481,993,762
	-	209,701	-	-	-	-	-	-	209,701
	-	11,628,595	-	-	-	-	-	-	11,628,595
	436,219,514	7,122,618,095	187,770,742	927,848,539	320,916,602	625,203,328	373,295,468	24,731,442,752	113,494,424,234
	-	1,961,529,520	-	-	-	-	-	-	34,158,389,212
	-	6,157,847	-	-	-	-	-	-	6,157,847
	436,219,514	9,922,378,777	187,770,742	927,848,539	320,916,602	625,203,328	373,295,468	24,731,442,752	156,367,270,815

38.3 Liquidity Risk

Liquidity Risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with 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. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis.

38.3.1 Management of Liquidity Risk

The Bank manages liquidity risk in accordance with regulatory guidelines and accepted best practices. The objective of the Bank's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and that market access remains cost effective. The Bank's liquidity risk management framework is designed to identify measure and manage the liquidity position in a timely manner. The Assets and Liabilities Committee (ALCO) is responsible for managing this risk through continuous monitoring of the set benchmarks and controlling risks by adopting appropriate strategies through advances, deposits and investment products. Contractual maturities of assets and liabilities, sensitivity of assets and liabilities, key liquidity ratios and monthly liquidity gaps are reviewed at ALCO meetings as measures to liquidity .The Bank maintains a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flows.

The Bank's Liquidity Contingency Plan is a detailed action plan document approved by the Board of Directors of the Bank indicating possible warning indicators, monitoring mechanism and the process for escalation. The plan details the specific action steps and identifies key individuals responsible for the specific action tasks. To limit liquidity risk, the Bank has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. Intraday liquidity management is about managing the daily payments and cash flows. The Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment systems.

The contractual maturities of assets and liabilities of the Bank as at the reporting date are detailed in Note 41.

The policy of the Bank is to maintain adequate liquidity at all times, at all locations and for all currencies and hence to be in a position in the normal course of business, to meet obligations, repay depositors and fulfill commitments. As a part of liquidity management, the Bank maintains borrowing relationships to ensure the continued access to diverse market of funding sources. The Bank's sound credit rating together with excellent market reputation has enabled the Bank to secure ample call lines with local and foreign Banks.

In addition, the Bank maintains a Statutory Deposit with the Central Bank of Sri Lanka equal to 5% (2018 - 6%) of Rupee deposit liabilities of the Domestic Banking Unit. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of Statutory Liquid Asset Ratio to customer liabilities, to reflect market conditions. The significant liquidity ratios during the year were as follows:

Advances to Deposit Ratio (ADR)

	2019	2018
Average	97.89%	97.54%
Year-end	99.19%	98.08%

The Bank stresses the importance of maintaining an adequate deposit base as the key source of financing loans to customers. This is monitored using the Advances to Deposit Ratio (ADR), which compares Loans and Advances (capital) as a percentage of customers deposits (capital). Cheques and drafts purchased which are deemed to be liquid, are excluded from the advances to deposit ratio.

Statutory Liquid Asset Ratio

	2019	2018
Average		
Domestic Banking Unit	31.48%	25.10%
Foreign Currency Banking Unit	21.45%	23.26%
Year-End		
Domestic Banking Unit (Minimum Requirement - 20%)	24.93%	29.17%
Foreign Currency Banking Unit (Minimum Requirement - 20%)	23.61%	20.09%

The Bank maintains a healthy Statutory Liquid Asset Ratio (SLAR) separately at Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) levels. The Bank considers Cash balances, Balances with Licensed Commercial Banks, Money at Call in Sri Lanka, Balances with Banks Abroad, Treasury Bills/Bonds and Securities issued or guaranteed by the Government of Sri Lanka, Sri Lanka Development Bonds, Sovereign Bonds, Standing Deposit Facility Investments, Gilt Edged Securities, Import Bills, Export Bills and Items in the Process of Collection as "Liquid Assets" for the purpose of Statutory Liquid Asset Ratio Calculation.

38.3.2 Statutory Liquidity Coverage Ratio

In addition to Statutory Liquid Asset Ratio (SLAR) requirement, the Bank ensures compliance with Liquidity Coverage Ratio (LCR) requirement in accordance with Direction No.01 of 2015 on 'Liquidity Coverage Ratio (LCR) under BASEL III Liquidity Standards for Licensed Commercial Banks and Licensed Specialised Banks'.

The Bank maintained sufficient High Quality Liquid Assets to meet minimum statutory requirement (100%) for both Sri Lankan Rupees as well as all currencies throughout the year.

High Quality Liquidity Assets are categorised into two categories.

(a) Level 1 Assets: Include cash in hand, qualifying reserves with Central Bank of Sri Lanka and qualifying marketable securities that attract 0% risk weight under Basel III Capital Adequacy Framework.

(b) Level 2 Assets: Include Level 2A assets and Level 2B assets.

Level 2A Assets: Include qualifying marketable securities and qualifying non-financial corporate debt securities that attract a 20% risk weight under Basel III Capital Adequacy Framework and qualifying investments in gilt units trusts, subject to a 15% haircut.

Level 2B Assets: Include qualifying non-financial corporate debt securities with an external Credit Rating between A+ to BBB- and non-financial common equity shares, subject to a 50% haircut.

Statutory Liquidity Coverage Ratio (LCR)

	2019	2018
Average		
Rupee LCR	170.00%	159.63%
All Currency LCR	176.22%	140.38%
Year End		
Rupee LCR (Minimum Requirement - 100%)	128.84%	166.08%
All Currency LCR (Minimum Requirement - 100%)	165.02%	136.52%

38.3.3 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at the end of the reporting period. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

31st December 2019	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	More than 5 Years Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	1,708,269,215	-	-	-	1,708,269,215
Balances with Central Bank of Sri Lanka	5,333,199,577	-	-	-	5,333,199,577
Derivative Financial Instruments	443,298	-	-	-	443,298
Financial Assets at FVPL	168,176,768	-	-	-	168,176,768
Loans and Advances - at Amortised Cost	48,505,057,359	21,011,936,286	54,430,434,792	23,830,356,384	147,777,784,821
Debt and Other Instruments - at Amortised Cost	729,260,700	11,978,087,824	17,485,518,704	7,433,542,683	37,626,409,911
Financial Assets at FVOCI	-	-	-	6,157,847	6,157,847
Total Undiscounted Financial Assets	56,444,406,917	32,990,024,110	71,915,953,496	31,270,056,914	192,620,441,437
Financial Liabilities					
Due to Banks	304,987,039	67,156,829	168,938,324	-	541,082,192
Derivative Financial Instruments	107,293	-	-	-	107,293
Due to Depositors - at Amortised Cost	59,881,822,157	53,824,959,310	13,469,362,096	3,429,314,180	130,605,457,743
Due to Debt Securities Holders - At Amortised Cost	2,441,745,848	3,277,005,004	7,566,238,052	-	13,284,988,904
Debentures Issued	-	-	-	-	-
Other Liabilities	68,203,657	162,726,621	510,148,553	121,995,469	863,074,300
Total Undiscounted Financial Liabilities	62,696,865,994	57,331,847,764	21,714,687,025	3,551,309,649	145,294,710,432
Net Undiscounted Financial Assets/(Liabilities)	(6,252,459,077)	(24,341,823,654)	50,201,266,471	27,718,747,265	47,325,731,005

31st December 2018	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	More than 5 Years Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	2,214,106,348	-	-	-	2,214,106,348
Balances with Central Bank of Sri Lanka	6,481,993,762	-	-	-	6,481,993,762
Derivative Financial Instruments	209,701	-	-	-	209,701
Financial Assets at FVPL	11,628,595	-	-	-	11,628,595
Loans and Advances - at Amortised Cost	45,425,131,939	20,822,451,174	56,605,867,348	19,197,583,880	142,051,034,341
Debt and Other Instruments - at Amortised Cost	3,617,102,027	16,618,859,905	16,185,430,998	1,815,871,947	38,237,264,877
Financial Assets at FVOCI	-	-	-	6,157,847	6,157,847
Total Undiscounted Financial Assets	57,750,172,372	37,441,311,079	72,791,298,346	21,019,613,674	189,002,395,471
Financial Liabilities					
Due to Banks	1,564,615,354	49,435,033	132,488,715	-	1,746,539,102
Derivative Financial Instruments	114,235	-	-	-	114,235
Due to Depositors - at Amortised Cost	64,927,528,670	40,815,550,139	18,801,413,068	3,662,573,124	128,207,065,001
Due to Debt Securities Holders - At Amortised Cost	3,169,104,247	2,469,766,954	10,956,836,101	1,521,222,230	18,116,929,532
Debentures Issued	145,304,891	6,125,132,403	-	-	6,270,437,294
Other Liabilities	17,899,743	8,966,996	1,750,586	-	28,617,325
Total Undiscounted Financial Liabilities	69,824,567,140	49,468,851,525	29,892,488,470	5,183,795,354	154,369,702,489
Net Undiscounted Financial Assets/(Liabilities)	(12,074,394,768)	(12,027,540,446)	42,898,809,876	15,835,818,320	34,632,692,982

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

Notes to the Financial Statements

38.3.4 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 31st December 2019	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingencies					
Guarantees	974,640,992	1,845,824,060	248,667,580	-	3,069,132,632
Documentary Credit	2,204,490,850	564,211,707	-	-	2,768,702,557
Forward Foreign Exchange Contracts	334,452,350	-	-	-	334,452,350
Currency Swaps	25,873,094,038	-	-	-	25,873,094,038
	29,386,678,230	2,410,035,767	248,667,580	-	32,045,381,577
Commitments					
Undrawn Credit Lines	14,953,647,649	-	-	-	14,953,647,649
	14,953,647,649	-	-	-	14,953,647,649
Total (Note 42)	44,340,325,879	2,410,035,767	248,667,580	-	46,999,029,226

As at 31st December 2018	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingencies					
Guarantees	1,063,866,807	1,568,460,502	341,349,342	-	2,973,676,651
Documentary Credit	798,565,428	69,922,375	-	-	868,487,803
Forward Foreign Exchange Contracts	775,562,653	-	-	-	775,562,653
Currency Swaps	20,887,851,927	1,834,745,000	-	-	22,722,596,927
	23,525,846,815	3,473,127,877	341,349,342	-	27,340,324,034
Commitments					
Undrawn Credit Lines	16,829,617,055	-	-	-	16,829,617,055
	16,829,617,055	-	-	-	16,829,617,055
Total (Note 42)	40,355,463,870	3,473,127,877	341,349,342	-	44,169,941,089

38.4 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Bank's income or the value of its holdings of financial instruments. The Bank has placed a special emphasis on the effect of market risk on fixed income securities, investments and forex positions.

Management of Market Risk

The primary objective of market risk management is to ensure that the Bank optimises that the risk reward relationship and does not expose to unacceptable losses outside its risk appetite.

The Board Integrated Risk Management Committee reviews the risk goals set for market risk management on a quarterly basis and provides valuable input and direction. These goals are compared with results achieved and are subject to a comprehensive discussion for decision making for way forward. In particular, the limits imposed by the regulator and control measures adopted for compliance are carefully monitored.

The Assets and Liabilities Committee (ALCO), in keeping with its Terms of Reference (TOR) approved by the Board, decides on short term and long term strategies of the Bank for the overall management of Assets and Liabilities based on specific needs and prevailing market situation. ALCO reviews interest rate risk, liquidity risk, Bank interest rates with competitor rates etc.

The Board approved comprehensive policy documents on Market and Liquidity Risk management, Investments, and Stress Testing in place at Bank to mitigate the market risks. In addition, a policy document defining the responsibilities of each treasury units i.e. front, back and middle office is in place. The Strategies and policies are being continuously updated according to the evolving business requirements of the Bank as well as regulatory requirements. Treasury Middle Office functions as an independent unit reporting to Chief Risk Officer.

Treasury Middle Office of the Bank monitors the comprehensive framework of Treasury operating limits approved by the Board, including open position limits, dealer limits, counter party limits, gap limits, Foreign Currency Banking Unit and Domestic operation limits on a daily basis and takes prompt action when necessary. Separate risk goals are set for market risk management and on a quarterly basis and Board Integrated Risk Management Committee reviews these risk goals and provides valuable input and direction.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest Rate Risk results from the differences in the way interest rate changes affect the values of assets, liabilities, and off balance sheet instruments.

The interest rate sensitivity of Banks portfolio depends on the characteristics of the financial instruments that make up the portfolio. The interest rate sensitivity of a financial instrument depends on maturity and reprising characteristics of the financial instruments.

The Bank presently prepares the Sensitivity of Assets and Liabilities according to CBSL guideline for Interest Rate Sensitive Assets and Liabilities in prescribed time bands which is presented to Bank's Assets and Liabilities Committee on a monthly basis. Gaps are identified between assets and liabilities and the same is used to prepare the Interest Rate Risk Report.

	2019	2018
Increase in interest rates (basis points)	200 bps	200 bps
Effect on Profit or Loss and Equity (Rs.)	(166,897,376)	133,509,409
Decrease in interest rates (basis points)	(200 bps)	(200 bps)
Effect on Profit or Loss and Equity (Rs.)	228,447,556	(135,308,210)

Notes to the Financial Statements

Interest Rate Sensitivity Analysis

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities. The Bank's Financial Assets and Liabilities are included at carrying amount and categorised by earlier of contractual re-pricing or maturity dates.

As at 31st December 2019	Interest Bearing				Non Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	1,708,269,215	1,708,269,215
Balances with Central Bank of Sri Lanka	-	-	-	-	5,333,199,577	5,333,199,577
Derivative Financial Instruments	-	-	-	-	443,298	443,298
Financial Assets at FVPL	168,176,768	-	-	-	-	168,176,768
Loans and Advances -at Amortised Cost	83,689,820,881	18,100,048,867	8,755,951,819	642,033,711	-	111,187,855,278
Debt and Other Instruments - at Amortised Cost	4,709,939,048	11,377,938,026	8,239,415,248	5,752,796,139	-	30,080,088,461
Financial Assets at FVOCI	-	-	-	-	6,157,847	6,157,847
Total Financial Assets	88,567,936,797	29,477,986,893	16,995,367,067	6,394,829,850	7,048,069,937	148,484,190,444
Financial Liabilities						
Due to Banks	136,045,959	55,438,133	161,422,129	-	168,930,121	521,836,342
Derivative Financial Instruments	-	-	-	-	107,293	107,293
Due to Depositors - at Amortised Cost	55,569,224,282	50,884,564,270	8,787,188,941	2,719,955,397	4,583,091,150	122,544,024,040
Due to Debt Securities holders - At Amortised Cost	4,588,258,196	5,295,490,330	2,061,094,225	-	-	11,944,842,751
Other Liabilities	68,203,657	162,726,621	510,148,553	121,995,469	-	863,074,300
Total Financial Liabilities	60,361,732,094	56,398,219,354	11,519,853,848	2,841,950,866	4,752,128,564	135,873,884,726
Total Interest Rate Sensitivity Gap	28,206,204,603	(26,920,232,461)	5,475,513,219	3,552,878,984	2,295,941,373	12,610,305,718

As at 31st December 2018	Interest Bearing				Non Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	2,214,106,348	2,214,106,348
Balances with Central Bank of Sri Lanka	-	-	-	-	6,481,993,762	6,481,993,762
Derivative Financial Instruments	-	-	-	-	209,701	209,701
Financial Assets at FVPL	-	-	-	-	11,628,595	11,628,595
Loans and Advances -at Amortised Cost	85,068,452,963	13,961,637,513	8,353,810,575	784,960,414	-	108,168,861,465
Debt and Other Instruments - at Amortised Cost	3,533,293,776	15,385,971,647	13,737,732,707	1,417,559,449	-	34,074,557,579
Financial Assets at FVOCI	-	-	-	-	6,157,847	6,157,847
Total Financial Assets	88,601,746,739	29,347,609,160	22,091,543,282	2,202,519,863	8,714,096,253	150,957,515,297
Financial Liabilities						
Due to Banks	980,579,768	48,393,239	131,202,650	-	584,031,188	1,744,206,845
Derivative Financial Instruments	-	-	-	-	114,235	114,235
Due to Depositors - at Amortised Cost	59,250,025,417	40,678,961,980	10,588,073,038	2,722,426,252	5,387,862,057	118,627,348,744
Due to Debt Securities holders - At Amortised Cost	6,312,516,115	4,920,994,106	2,062,094,225	-	-	13,295,604,446
Debentures Issued	908,061,150	4,901,125,003	-	-	-	5,809,186,153
Other Liabilities	17,899,743	8,966,996	1,750,586	-	-	28,617,325
Total Financial Liabilities	67,469,082,193	50,558,441,324	12,783,120,499	2,722,426,252	5,972,007,480	139,505,077,748
Total Interest Rate Sensitivity Gap	21,132,664,546	(21,210,832,164)	9,308,422,783	(519,906,389)	2,742,088,773	11,452,437,549

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

38.4.2 Equity Price Risk

Equity price risk arises from the possibility that equity prices will fluctuate affecting the value of quoted equities.

The Bank does not hold any investment for strategic purposes other than the unquoted investments which are held for regulatory purposes. The value of quoted securities held in Bank's trading portfolio are directly linked to equity prices of Colombo Stock Exchange with increases/ decreases being monitored and marked to market. A Sensitivity analysis is carried out by a stress testing exercise that assesses the impact of the fall in the stock market index which is according to Bank's policy. However, the Bank does not hold a significant investment in quoted or unquoted shares as at the reporting period date.

All investments held for trading are valued at market prices as at the reporting period date and resulting gains and losses are taken into books as unrealised gains. Un-quoted investments classified as 'Equities at FVOCI' are carried at the cost in the Statement of Financial Position.

All equity investments categorised as held for trading were disposed during the year.

38.4.3 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. The Bank is exposed to foreign exchange rate risk that the value of a financial instrument or the investment in its foreign assets, may fluctuate due to changes in foreign exchange rates.

The Bank's foreign exchange exposure is affected by movements in exchange rates. A Sensitivity analysis is used to measure the potential impact on Bank's adverse movements in exchange rate by giving adverse shocks for Net Open Position (NOP) of the Bank including the on balance sheet and off balance sheet exposures and assess the results thereafter according to the policy. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

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

As at 31st December	In Original Foreign Currency		Functional Currency of the Bank	
	2019	2018	2019 Rs.	2018 Rs.
Net Foreign Currency Exposure				
Great Britain Pound	(19,991)	(4,370)	(4,773,048)	(1,018,957)
United States Dollar	(21,962)	158,359	(3,983,482)	28,979,651
Euro	2,525	(19,458)	513,467	(4,073,200)
Japanese Yen	(1,098,938)	(77,664)	(1,836,106)	(129,077)

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

As at 31st December 2019			As at 31st December 2018		
	USD	Rs.		USD	Rs.
NOP	91,013	16,507,991	NOP	142,061	25,997,175
At Shock levels of %	Revised Rupee position	Effect on Profit or Loss	At Shock levels of %	Revised Rupee position	Effect on Profit or Loss
	Rs.	Rs.		Rs.	Rs.
5	15,682,591	825,400	5	24,697,316	1,299,859
10	14,857,192	1,650,799	10	23,397,458	2,599,718
15	14,031,792	2,476,199	15	22,097,599	3,899,576

38.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The Bank recognises the significance of operational risk, which is inherent in all areas of business. This includes legal risk but excludes strategic and reputation risk. Operational risks inherent in the Bank's activities are managed within acceptable levels through an appropriate level of management focus on resources.

The Bank has an Operational Risk Management Policy approved by Board of Directors which clearly demonstrates the objectives and procedures in managing operational risks. This policy manual outlines the internal operating policies of the Bank's Operational Risk Management framework. The Board Integrated Risk Management Committee oversees the implementation of the operational risk management framework.

39 NET ASSET VALUE PER ORDINARY SHARE

	2019	2018
Total Equity Holders Funds (Rs.)	13,328,788,206	11,246,643,256
Number of Ordinary Shares in Issue	442,561,629	442,561,629
Net Assets Per Share (Rs.)	30.12	25.41

40 ADDITIONAL CASH FLOW INFORMATION

40.1 Cash and Cash Equivalents for Cash Flow Purpose

	2019 Rs.	2018 Rs.
Cash in Hand (Note 15)	1,475,276,403	1,394,232,445
Balances with Foreign Banks (Note 15)	234,373,360	819,873,903
	1,709,649,763	2,214,106,348

The Statutory Balances with the Central Bank of Sri Lanka is not available to finance the Bank's day-to-day operations and therefore, is not considered as a part of cash and cash equivalents.

40.2 Change in Operating Assets

	2019 Rs.	2018 Rs.
Net Change in Statutory Deposit with Central Bank of Sri Lanka	1,148,794,185	402,024,150
Net Change in Derivative Financial Instruments	(233,597)	15,881,692
Change in Financial Assets - Fair Value through Profit or Loss	(156,548,173)	4,537,560,434
Change in Loans and Advances -at Amortised Cost	(4,107,664,779)	(1,758,636,208)
Changes in Debt and Other Instruments	3,951,943,308	(21,787,365,152)
Net Change in Other Assets	(228,127,409)	(28,655,157)
	608,163,535	(18,619,190,241)

40.3 Change in Operating Liabilities

	2019 Rs.	2018 Rs.
Net Change in Due to Banks	(1,222,370,503)	(753,694,399)
Net Change in due to Debt Securities Holders - at Amortised Cost	(698,781,879)	2,431,032,003
Net Change in Derivative Financial Instruments	(6,942)	(7,252,326)
Net Change in Due to Depositors - at Amortised Cost	3,916,675,296	11,434,319,104
Net Change in Other Provisions and Accruals	(20,795,413)	(21,137,567)
Net Change in Other Liabilities	388,425,783	1,185,653,410
	2,363,146,342	14,268,920,225

Notes to the Financial Statements

40.4 Other Non-Cash Items Included in Profit Before Tax

	2019 Rs.	2018 Rs.
Depreciation of Property, Plant and Equipment	147,738,549	159,440,256
Amortisation of Right-of-Use assets	202,526,811	-
Amortisation of Intangible Assets	37,439,104	34,370,887
Loss/(Profit) on Disposal of Property, Plant and Equipment	5,516,911	(2,104,202)
Impairment Charges	1,136,842,858	2,017,146,532
Defined Benefit Plan Expenses	71,936,571	66,708,219
	1,602,000,804	2,275,561,692

40.5 Operational Cash Flows From Interest and Dividends

	2019 Rs.	2018 Rs.
Interest Paid	10,267,868,039	9,765,228,910
Interest Received	19,327,891,116	18,341,824,155
Dividends Received	1,148,100	920,200

40.6 Changes in Liabilities arising from Financing Activities

2019	Stated Capital Rs.	Term Debt Rs.	Debentures Rs.	Lease Liabilities Rs.	Total Liabilities from Financing Activities Rs.
As at 1st January 2019	3,614,253,304	10,203,968,478	5,809,186,154	1,006,839,907	20,634,247,843
Cash Flows from Financing Activities					
- Receipts	-	362,760,000	-	-	362,760,000
- Repayments	-	(1,000,000,000)	(5,690,855,300)	(206,370,814)	(6,897,226,114)
- Interest Payments	-	(861,852,688)	(573,193,734)	(101,630,636)	(1,536,677,058)
Effect of Movement in Foreign Exchange Rate	-	(58,725,000)	-	-	(58,725,000)
Others *	-	866,026,051	454,862,880	125,341,756	1,446,230,687
As at 31st December 2019	3,614,253,304	9,512,176,841	-	824,180,213	13,950,610,358

2018	Stated Capital Rs.	Term Debt Rs.	Debentures Rs.	Total Liabilities from Financing Activities Rs.
As at 1st January 2018	3,614,253,304	6,733,162,061	7,147,051,848	17,494,467,213
Cash Flows from Financing Activities				
- Receipts	-	2,870,094,225	-	2,870,094,225
- Repayments		(500,000,000)	(1,309,144,700)	(1,809,144,700)
- Interest Payments	-	(709,613,002)	(703,260,306)	(1,412,873,308)
Effect of Movement in Foreign Exchange Rate	-	1,067,562,500	-	1,067,562,500
Others *	-	742,762,694	674,539,311	1,417,302,005
As at 31st December 2018	3,614,253,304	10,203,968,478	5,809,186,154	19,627,407,935

*The 'Others' row includes the effect of accrued but not yet paid interest on Term Debt, Debentures, Lease Liabilities and change in transaction costs.

41 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31st December 2019	Within 12 Months Rs.	Over 12 Months Rs.	Total Rs.
Assets			
Cash and Cash Equivalents	1,708,269,215	-	1,708,269,215
Balances with Central Bank of Sri Lanka	5,333,199,577	-	5,333,199,577
Derivative Financial Instruments	443,298	-	443,298
Financial Assets at FVPL	168,176,768	-	168,176,768
Loans and Advances -at Amortised Cost	59,532,587,766	51,655,267,512	111,187,855,278
Debt and Other Instrument - at Amortised Cost	11,250,994,229	18,829,094,232	30,080,088,461
Financial Assets at FVOCI	-	6,157,847	6,157,847
Property, Plant and Equipment	-	2,333,961,113	2,333,961,113
Right-of-Use Assets	212,036,174	699,800,626	911,836,800
Intangible Assets	-	280,851,974	280,851,974
Other Assets	522,615,767	446,239,378	968,855,145
Total Assets	78,728,322,794	74,251,372,682	152,979,695,476
Liabilities			
Due to Banks	360,414,214	161,422,128	521,836,342
Derivative Financial Instruments	107,293	-	107,293
Due to Depositors - at Amortised Cost	110,160,213,257	12,383,810,783	122,544,024,040
Due to Debt Securities Holders - at Amortised Cost	5,122,523,526	6,822,319,225	11,944,842,751
Current Tax Liabilities	752,287,378	-	752,287,378
Deferred Tax Liabilities	132,780,476	-	132,780,476
Other Provisions and Accruals	187,602,599	-	187,602,599
Other Liabilities	2,620,161,464	947,264,927	3,567,426,391
Total Liabilities	119,336,090,207	20,314,817,063	139,650,907,270
Net	(40,607,767,413)	53,936,555,619	13,328,788,206

Notes to the Financial Statements

31st December 2018	Within 12 Months Rs.	Over 12 Months Rs.	Total Rs.
Assets			
Cash and Cash Equivalents	2,214,106,348	-	2,214,106,348
Balances with Central Bank of Sri Lanka	6,481,993,762	-	6,481,993,762
Derivative Financial Instruments	209,701	-	209,701
Financial Assets at FVPL	11,628,595	-	11,628,595
Loans and Advances -at Amortised Cost	56,286,222,703	51,882,638,762	108,168,861,465
Debt and Other Instruments - at Amortised Cost	18,919,265,424	15,155,292,155	34,074,557,579
Financial Assets at FVOCI		6,157,847	6,157,847
Property, Plant and Equipment	-	1,934,573,939	1,934,573,939
Intangible Assets	-	305,083,081	305,083,081
Deferred Tax Assets	4,931,302	-	4,931,302
Other Assets	421,141,583	403,037,621	824,179,204
Total Assets	84,339,499,418	69,686,783,405	154,026,282,823
Liabilities			
Due to Banks	1,613,004,195	131,202,650	1,744,206,845
Derivative Financial Instruments	114,235	-	114,235
Due to Depositors - at Amortised Cost	102,515,503,621	16,111,845,123	118,627,348,744
Due to Debt Securities Holders - at Amortised Cost	4,135,856,184	9,159,748,262	13,295,604,446
Debentures Issued	5,809,186,153	-	5,809,186,153
Current Tax Liabilities	785,735,048	-	785,735,048
Other Provisions and Accruals	208,398,012	-	208,398,012
Other Liabilities	2,035,302,663	273,743,421	2,309,046,084
Total Liabilities	117,103,100,111	25,676,539,456	142,779,639,567
Net	(32,763,600,693)	44,010,243,949	11,246,643,256

42 COMMITMENTS AND CONTINGENCIES

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

Documentary Credit and Financial Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Financial Guarantees and Documentary Credit (Letters of Credit) carry a similar credit risk to loans. Details of Commitments and Contingencies are given below;

42.1 Contingencies

As at 31st December	2019 Rs.	2018 Rs.
Guarantees	3,069,132,632	2,973,676,651
Documentary Credit	2,768,702,557	868,487,803
Forward Foreign Exchange Contracts	334,452,350	775,562,653
Currency Swaps	25,873,094,038	22,722,596,927
	32,045,381,577	27,340,324,034

42.2 Commitments

As at 31st December	2019 Rs.	2018 Rs.
Undrawn Credit Commitments	14,953,647,649	16,829,617,055
	14,953,647,649	16,829,617,055
Total (Note 38.3.4)	46,999,029,226	44,169,941,089

Impairment allowances on undrawn credit commitments are included under impairment allowances for respective loan products in Note 19.5, whereas impairment provisions on financial guarantees and documentary credit is given under Note 30 - Other Liabilities.

There are no significant capital commitments as at the date of the Statement of Financial Position (2018-Nil).

42.3 Material Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the 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 loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

Pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a reasonable security to cover the damages are not considered here as the Bank does not expect cash outflows from such claims. However, further adjustments are made to the Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the probability of the outcome and also based on a reasonable estimation. The Bank's legal counsel is of the opinion that litigations which are currently pending will not have a material impact on the reported financial results or future operations of the Bank.

43 LEASE ARRANGEMENTS

43.1 Operating Lease Commitments - Bank as Lessee

The Bank has entered into commercial leases for branch premises. These lease agreements have an average life of between five and ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments due under such lease agreements as at 31st December 2018 are as follows:

	2018 Rs.
Within one year	290,118,848
After one year but not more than five years	760,117,672
More than five years	332,902,640
	1,383,139,160

43.2 Finance Lease Receivables

The Bank leases a variety of assets such as motor vehicles, machinery and equipments to third parties under finance leases. At the end of the lease terms assets may be sold to third parties or leases for further terms. The lease terms are fixed. Rentals are calculated to recover the cost of the assets less their residual values and earn finance income.

As at 31st December 2019	Total Future Minimum Payments Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payments Rs.
Lease Rentals Receivable			
Within one year	4,694,553,697	1,041,266,734	3,653,286,963
After one year but not more than five years	6,055,431,469	1,082,125,383	4,973,306,086
More than five years	715,034	106,554	608,480
Total (Note 19.1)	10,750,700,200	2,123,498,671	8,627,201,529

As at 31st December 2018	Total Future Minimum Payments Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payments Rs.
Lease Rentals Receivable			
Within one year	5,121,932,819	1,173,720,877	3,948,211,942
After one year but not more than five years	7,185,126,681	1,329,699,398	5,855,427,283
More than five years	500,000	6,376	493,624
Total (Note 19.1)	12,307,559,500	2,503,426,651	9,804,132,849

Accumulated allowance for uncollectible minimum lease payments are disclosed in Note 19.5.

44 RELATED PARTY DISCLOSURE

The Bank carries out transactions in the ordinary course of business with parties who are defined as “Related Parties” in LKAS 24 - ‘ Related Party Disclosures’. The terms and conditions of such transactions are disclosed under Note 44.4 and Note 44.5.

44.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

44.2 Transactions with Key Management Personnel of the Bank

The Bank has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the Bank as the ‘Key Management Personnel’ in accordance with LKAS 24 : ‘Related Party Disclosures’. Accordingly, the Chief Executive Officer and the Board of Directors have been identified as ‘Key Management Personnel’ (KMP) for Accounting and Financial Reporting purposes.

44.3 Compensation of Key Management Personnel of the Bank

The following represents the compensation paid to Key Management Personnel of the Bank.

As at 31st December	2019 Rs.	2018 Rs.
Short-term Benefits	57,800,147	58,399,325
Retirement Benefits	3,476,915	3,213,183
	61,277,062	61,612,508

Short-term benefits represent salaries, bonuses and other related expenses of Chief Executive Officer/Director and fees paid to Non Executive Directors including the Chairman. Retirement Benefits includes the Bank's contribution for Employees' Provident Fund and Employees' Trust Fund with regard to KMP's.

44.4 Transactions with Key Management Personnel of the Bank

The Bank enters into transactions, arrangements and agreements with Key Management Personnel and Close family members of Key Management Personnel in the ordinary course of business. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest/commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for individual impairment losses on amounts owed by the Key Management Personnel and their Close Family Members.

	2019 Rs.	2018 Rs.
Assets		
Loans and Advances	50,163,995	50,000,868
Liabilities		
Deposits and Borrowings	393,197,009	425,926,684
Income and Expenses		
Interest Income	2,130,776	1,257,466
Interest Expense	51,968,199	46,884,546
Fee and Commission Income	39,082	30,425

44.5 Transactions with Other Related Parties of the Bank

In addition to transactions with Key Management Personnel and their Close Family Members, the Bank enters into transactions, arrangements and agreements with entities that are controlled or joint controlled by the Key Management Personnel and their Close Family Members in the ordinary course of business. The transactions below were made in the ordinary course of business on substantially the same terms, including interest/commission rates and security, as for comparable transactions with unrelated counterparties. The transaction did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for individual impairment losses on amounts owed by related parties.

	2019 Rs.	2018 Rs.
Liabilities		
Deposits	2,933,531	6,182,826
Income and Expenses		
Interest Income	-	584
Interest Expense	366,339	285,965
Fee and Commission Income	10,500	22,850

45 EVENTS AFTER THE REPORTING DATE

There were no events after the reporting date which require adjustments to or disclosures in the Financial Statements, other than disclosed below.

45.1 Debenture Issue 2020/2025

The Bank announced a debenture issue on 16th January 2020, of an initial issue of up to 7,500,000 BASEL III complaint-Tier 2, unlisted, unsecured, subordinated, redeemable 05 year debentures at an issue price of Rs.100 each with a non-viability conversion clause with an option to issue up to a further 5,000,000 of said Debentures at the discretion of the Bank in the event of an over subscription of the initial issue with a maximum tenure of 5 years, subject to necessary regulatory and other approvals.

45.2 Amendments to the Income Tax Law Announced by the Government

The corporate income tax rate of banks is proposed to be reduced from 28% to 24% with effective from the Year of Assessment 2020/21, subject to the ratification of the parliament. The Bank has not considered the resultant impact in computation of deferred tax liabilities as at 31st December 2019 as relevant provisions are yet to be legislated. Had the resultant impact been adjusted, the net deferred tax liability as at 31st December 2019 would have been reduced by Rs.18,968,639/-. Further the deferred tax charge (income tax expense) for the year ended 31st December 2019 would have been increased by Rs. 22,323,398/- and deferred tax effect (expense) of the items that are routed through other comprehensive income (not re-classified to profit or loss) would have been reduced by Rs. 41,292,038/-.

46 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital requirements of the local prudential regulator, Central Bank of Sri Lanka. The adequacy of the Bank's Capital is monitored using among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BCBS) and adopted by the Central Bank of Sri Lanka.

Capital Management

The main objectives of the Bank's capital management policy are to ensure the Bank maintain sufficient capital to meet regulatory capital requirements, hold sufficient capital to support the Bank's risk appetite, provide additional capital to business segments to achieve strategic objectives, to provide a buffer in absorbing potential losses arising from various risks and safeguarding of depositor funds and ensuring that the Bank maintaining required capital levels in order to achieve credit rating objectives.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to the shareholders, return capital to shareholders or issue capital securities, all of which are under the constant review by the Board of Directors and the Board Committees.

The Banking Act Direction No. 01 of 2016 on "Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's)" prescribes minimum capitals ratios for banks depending on the size of the asset base and other factors. The Non Systematically Important Banks including Pan Asia Banking Corporation PLC needs to maintain following minimum capital ratio requirements with effective from 1st January 2019.

Components of Capital	Requirement
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 'Total Capital' under BASEL III consists Common Equity Tier 1 Capital, which comprises Stated Capital, Statutory Reserve Fund, Published Retained Earnings and Other General Reserves less Cost of Intangible Assets (Adjustments). The other component of Tier 1 Capital is Additional Tier 1 Capital, while the Bank has no any Additional Tier 1 capital instruments at the end of the reporting period. Tier 2 Capital is the other component of the Total Capital which includes Approved Revaluation Surpluses, Subordinated Term Debt, 100% of impairment for Stage 1 assets and 50% of impairment for Stage 2 assets under SLFRS subject to maximum limit of 1.25% RWA in Credit Risk.

The Bank reported a Common Equity Tier 1 (CET 1) Capital Ratio of 12.87%, Total Tier 1 Capital Ratio of 12.87% and Total Capital Ratio of 14.31% as at 31st December 2019 which remain well above the minimum regulatory requirements. The Bank has absorbed 50% of the day 1 impact of SLFRS 9 adoption in computation of the above capital ratios as at 31st December 2019 as prescribed by Central Bank of Sri Lanka in the Guideline No. 04 of 2018 on 'Adoption of SLFRS 9 - Financial Instruments'. Had SLFRS 9 day 1 impact not been absorbed to retained earnings, all regulatory capital ratios would have been improved by 50 basis points each.

In addition to above, the Bank needs to enhance its Total Tier 1 Capital to Rs. 20 billion by 31st December 2020 as required by the Banking Act Direction No. 05 of 2017 on 'Enhancement of Minimum Capital Requirements of Banks'. As at 31st December 2019, the Bank's Tier 1 Capital stood at Rs.12.85 billion. The Board of Directors foresees that the above capital requirement needs to be met through a combination of internally generated funds of the Bank and infusion of fresh capital. As at the date of the approving these financial statements, the Bank is engaged in discussions with the key shareholders and the industry prudential regulator on raising capital externally. The Board of Directors are confident that these discussions will be successful.

The Bank expects to submit a revised Capital Augmentation Plan to meet the above capital requirements to the industry prudential regulator with the Annual Internal Capital Adequacy Assessment Process (ICAAP) Document by 31st May 2020 in accordance with the Banking Act Direction No. 01 of 2016 on "Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's)".

Notes to the Financial Statements

47 SEGMENT REPORTING

	2019			
	Retail & SME Banking Rs.	Corporate Banking Rs.	Treasury and Investments Rs.	Total Rs.
Gross Income				
Third Party	16,121,442,657	2,168,459,264	3,617,760,137	21,907,662,058
Inter-Segment	2,309,682,413	(166,354,551)	(2,143,327,862)	-
Total Income	18,431,125,070	2,002,104,713	1,474,432,275	21,907,662,058
Extract of Results				
Interest Income	14,487,656,914	2,112,016,367	2,816,932,571	19,416,605,852
Interest Expense	(11,354,490,149)	(1,355,788,567)	(71,738,654)	(12,782,017,370)
Inter - Segment	2,309,682,413	(166,354,551)	(2,143,327,862)	-
Net Interest Income	5,442,849,178	589,873,249	601,866,055	6,634,588,482
Fees and Commission Income	1,548,451,568	57,425,440	-	1,605,877,008
Fees and Commission Expense	(48,873,315)	-	(11,685,737)	(60,559,052)
Net Fee and Commission Income	1,499,578,253	57,425,440	(11,685,737)	1,545,317,956
Net Gain from Trading	28,213,271	-	621,363,605	649,576,876
Other Operating Income	57,120,904	(982,543)	179,463,961	235,602,322
Total Operating Income	7,027,761,606	646,316,146	1,391,007,884	9,065,085,636
Impairment Charges on Financial Assets	(705,843,262)	(387,454,355)	(43,545,241)	(1,136,842,858)
Net Operating Income	6,321,918,344	258,861,791	1,347,462,643	7,928,242,778
Depreciation of Property, Plant and Equipment	124,293,849	13,501,580	9,943,120	147,738,549
Amortisation of Intangible Assets	31,497,876	3,421,497	2,519,730	37,439,103
Segment Result	6,166,126,619	241,938,714	1,334,999,793	7,743,065,126
Un-allocated Expenses	-	-	-	4,340,385,939
Operating Profit Before Taxes and Levies on Financial Services	-	-	-	3,402,679,187
Taxes and Levies on Financial Services	-	-	-	1,088,540,188
Profit Before Tax	-	-	-	2,314,138,999
Income Tax Expense	-	-	-	563,569,904
Profit for the Year	-	-	-	1,750,569,095
Other Comprehensive Income for the Year	-	-	-	331,575,855
Total Comprehensive Income for the Year	-	-	-	2,082,144,950
Segment Assets	100,464,373,579	14,067,094,669	30,664,738,254	145,196,206,502
Unallocated Assets	-	-	-	7,783,488,974
Total Assets	100,464,373,579	14,067,094,669	30,664,738,254	152,979,695,476
Segment Liabilities	123,894,664,025	7,019,287,713	4,096,858,689	135,010,810,427
Unallocated Liabilities and Equity	-	-	-	17,968,885,049
Total Liabilities and Equity	123,894,664,025	7,019,287,713	4,096,858,689	152,979,695,476

	2018			
	Retail & SME Banking Rs.	Corporate Banking Rs.	Treasury and Investments Rs.	Total Rs.
Gross Income				
Third Party	15,864,704,101	2,586,890,565	3,220,598,802	21,672,193,468
Inter-Segment	1,693,673,114	322,340,124	(2,016,013,238)	-
Total Income	17,558,377,215	2,909,230,689	1,204,585,564	21,672,193,468
Extract of Results				
Interest Income	14,220,956,244	2,519,028,371	2,417,151,047	19,157,135,662
Interest Expense	(10,492,488,280)	(2,059,685,261)	(86,667,560)	(12,638,841,101)
Inter - Segment	1,693,673,114	322,340,124	(2,016,013,238)	-
Net Interest Income	5,422,141,078	781,683,234	314,470,249	6,518,294,561
Fees and Commission Income	1,567,773,721	58,632,159	4,000	1,626,409,880
Fees and Commission Expense	(95,225,962)	-	(11,502,787)	(106,728,749)
Net Fee and Commission Income	1,472,547,759	58,632,159	(11,498,787)	1,519,681,131
Net Gain from Trading	(478,825)	-	476,908,684	476,429,859
Other Operating Income	76,452,962	9,230,035	326,535,070	412,218,067
Total Operating Income	6,970,662,974	849,545,428	1,106,415,216	8,926,623,618
Impairment Charges on Financial Assets	(1,070,316,331)	(914,303,157)	(32,527,044)	(2,017,146,532)
Net Operating Income	5,900,346,643	(64,757,729)	1,073,888,172	6,909,477,086
Depreciation of Property, Plant and Equipment	129,175,303	21,402,932	8,862,021	159,440,256
Amortisation of Intangible Assets	27,846,605	4,613,877	1,910,405	34,370,887
Segment Result	5,743,324,735	(90,774,538)	1,063,115,746	6,715,665,943
Un-allocated Expenses	-	-	-	4,115,010,458
Operating Profit Before Taxes and Levies on Financial Services	-	-	-	2,600,655,485
Taxes and Levies on Financial Services	-	-	-	690,998,636
Profit Before Tax	-	-	-	1,909,656,849
Income Tax Expense	-	-	-	368,014,002
Profit for the Year	-	-	-	1,541,642,847
Other Comprehensive Income for the Year	-	-	-	18,382,696
Total Comprehensive Income for the Year	-	-	-	1,560,025,543
Segment Assets	93,172,489,572	17,135,674,658	35,006,624,033	145,314,788,263
Unallocated Assets				8,711,494,560
Total Assets	93,172,489,572	17,135,674,658	35,006,624,033	154,026,282,823
Segment Liabilities	111,294,605,678	26,617,129,552	1,564,725,192	139,476,460,422
Unallocated Liabilities and Equity				14,549,822,401
Total Liabilities and Equity	111,294,605,678	26,617,129,552	1,564,725,192	154,026,282,823