

ANNUAL REPORT
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PRIDE

OF THE NATION



**PEOPLE'S
BANK**





PRIDE OF THE NATION

We believe in the aspirations and potential of every Sri Lankan and take pride in our role in empowering them to realise their dreams.

It is this pride that guides and inspires us to pursue excellence in the banking sphere, while uplifting the economic stability of the people and our nation.

As the nation's financial landscape embraces the digital evolution, it is our legacy of putting the nation first that powers our quest for digital banking supremacy.

ABOUT THIS REPORT

WELCOME TO OUR SIXTH INTEGRATED ANNUAL REPORT

This Annual Report aims to provide a transparent assessment of our performance in line with our strategy, created value for our stakeholders, operating context, governance and operations of the Bank during the 12-month period ending 31 December 2020. Continuing our pursuit of excellence in corporate reporting, we aim to provide a balanced review of our performance, in a concise but comprehensive manner. This Report builds on our previous Integrated Annual Report published on 31 December 2019 and is consistent with our annual reporting cycle for both financial and sustainability reporting. The Report focuses on our response to the COVID-19 pandemic and the way we have adapted to new ways of working and our plans for the future.

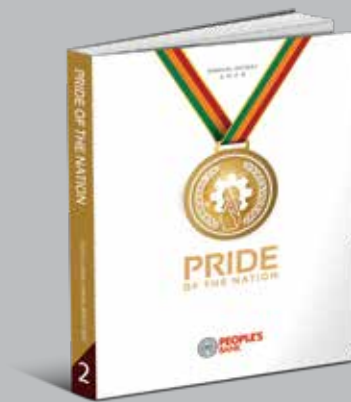
How to read this Report

This Report is presented in two parts:



→ BOOK 1

The Report begins with an overview about the Bank followed by the Letter from the Chairman and the Chief Executive Officer/ General Manager's Review. The section "Positioned for value creation" sets out how we have engaged stakeholders to identify, prioritise and manage environmental, social and governance themes, our impacts and our value creation and how our strategy facilitates value creation for our stakeholders in the short, medium and, long term. It also provides an update on the execution of our strategy and insights into the results. The section "Operational review" details the contribution of the business units to the strategic direction of the Bank. This is followed by an overview of our governance structure, how we embed our policies on ethics and integrity, and the manner in which we manage risks.



→ BOOK 2

The financial reports and supplementary reports sections include the Audited Financial Statements with notes showcasing the financial performance of the Bank and the Group for the financial year ended 2020 and the financial position as at 31 December 2020 along with supplementary information.

GRI 102-51

Our most recent integrated report for the year ended 31 December 2019, as well as the reports for the past five years are available on our website: <https://www.peoplesbank.lk>

ABOUT THIS REPORT

→ CAPITALS

The six capitals as defined by the International <IR> Framework.

	01. Financial capital
	02. Manufactured capital
	03. Intellectual capital
	04. Human capital
	05. Social and relationship capital
	06. Natural capital

→ STRATEGY

A review of our strategic performance is given under "Our Strategic Plan" on pages 57 to 63.

Our key strategic objectives are:

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

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

→ SCOPE AND BOUNDARY

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

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

The scope of the People's Bank Annual Report 2020 covers the 12-month period from 1 January 2020 to 31 December 2020 and is consistent with the annual reporting cycle for financial and sustainability reporting.

During the year under review, there were no significant changes from previous reporting periods in the scope and aspect boundaries, neither were there any restatements as compared to the Annual Report issued in the previous reporting year.

→ MATERIALITY

To define the content to be presented in the Report, we have applied the principle of materiality. Accordingly, the Report captures the opportunities and challenges that impact materially on People's Bank and its ability to be a sustainable business that consistently delivers value to shareholders, prospective investors and our key stakeholders.

GRI 102-12, 102-54

→ REPORTING FRAMEWORKS

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

- The International Integrated Reporting Council (IIRC) Framework
- Consolidated set of Global Reporting Initiative Sustainability Reporting Standards Guidelines
- GRI Standards: In Accordance – Core option
- The Institute of Chartered Accountants of Sri Lanka
- Securities and Exchange Commission of Sri Lanka
- The Central Bank of Sri Lanka
- The Colombo Stock Exchange
- The United Nations Sustainable Development Goals (SDGs)
- The Smart Integrated Reporting Methodology™

ABOUT THIS REPORT

GRI 102-11

→ PRECAUTIONARY PRINCIPLE

We apply the precautionary principle with regard to our social and environmental sustainability. We understand that our operations cause reciprocal impacts on society and the environment. As a bank, even though our operations do not directly create a negative impact on the society and the environment, we have taken necessary measures to alleviate such risks. These are detailed under Community Capital and Natural Capital on pages 114 to 125.

GRI 102-56

→ ASSURANCE

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

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

→ QUALITY ASSURANCE

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

→ FORWARD-LOOKING STATEMENTS

There are certain statements in this report which may constitute forward-looking statements that are based on assumptions made by and information currently available. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to the Bank's business prospects, future developments, trends and conditions in the industry and geographical markets in which the Bank operates, its strategies, plans, objectives and goals, its ability to control costs, statements relating to prices, volumes, operations, margins, overall market trends, risk management and exchange rates. People's Bank does not give any assurance on the probabilities of achieving these future events due to the risk and uncertainty related to the circumstances on which these events depend on, especially the macroeconomic conditions.

GRI 102-53



QUERIES AND FEEDBACK

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

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ABOUT PEOPLE'S BANK

People's Bank – The pride of the Nation

Our Bank through the country's largest network of branches, we serve more than 14 million customers, which is the largest customer base in the Sri Lankan banking industry offering a wide spectrum of financial services. People's Bank is Sri Lanka's second largest commercial Bank in terms of asset volume with an asset base exceeding LKR 2.2 Tn. we enjoy an unparalleled position of stability and security, maintaining the highest level of professionalism and ethics in all our activities. On a standalone basis, we are Sri Lanka's largest foreign currency borrower amongst Licensed Commercial Banks; which is self attesting to our reputation and strength of relationships. Established as a licensed commercial Bank under the People's Bank Act No. 29 of 1961, we are a systematically important bank in Sri Lanka. In an unprecedented year, following the COVID-19 pandemic, we supported our people and our Nation extending financial support in a manner previously unseen in our own history.

Our digitalisation drive

Today, we lead the digital revolution in Sri Lanka's Banking fraternity. Our successes in this sphere has enabled the masses of our island to benefit from technology that is in par with the world's best. Our digitalisation drive has witnessed a number of ground-breaking digital initiatives being launched in the local market to deliver ease, speed, efficiency and convenience to customers at every point in their interaction. We are the first and only bank in Sri Lanka to be accredited the ISO/IEC 27001:2013 certification; the highest international accreditation for information protection and security.

New digital initiatives for 2020

- Developed 'Helaviru' the electronic trading platform to structure Sri Lanka's agri-value chain
- Facilitate e-ticketing
- Facilitate automate collection of bus/train fare
- QR code payments
- Fingerprint verification for pensioners
- [Read more on pages 80 and 82.](#)

Our commitment to social responsibility and sustainability

Recognising our efforts for taking responsibility for our operations and setting an example of good practices in the financial services industry, we were awarded with CarbonConscious® certification by SFG, thereby making us, Asia's First State-owned Bank to achieve this distinction. The 'People's Green Pulse' showcases our commitment towards environmental sustainability and our pledge towards a green future.

→ [Read more on pages 121 and 125.](#)

Credit rating

Fitch Ratings Lanka Ltd. has given a National Long-Term Rating at AA-(lka) with a stable outlook. This takes into account our high systemic importance as the second-largest bank in the country, accounting for nearly 16% of domestic banking system assets at end-December 2020, our quasi-sovereign status, our role as a key lender to the government and full government ownership.

Capitalisation

Capital adequacy measures the Bank's ability to withstand in an unexpected loss scenario due to various activities carried out by the Bank. This is a key financial indicators which illustrate the soundness and the stability of the Bank.

ABOUT PEOPLE'S BANK


A first respondent to COVID-19




➔ The first to implement CBSL COVID-19 relief

Extent of debt relief offered:

 **>400,000**
Individual customers


 **>21,000**
Businesses


 **>5,000**
Bank pensioners


 **>5,000**
Bank employees


➔ Ensure "unhindered/unmatched" continued access –


Extent of debt relief offered:

 **>70%**
of all branches/service centres functioning

 **All 244 SBUs**
functioning on a 24/7 basis with over 99.0% uptime

 Value of transactions processed by People's Bank ATM and CDMs exceeded LKR 1 Tn.

 Approximately 5,000 digital transactions processed daily

 Over 1,000 remote locations provided "near-door-step-banking" through mobile banking units

➔ Pre-emptive customer and employee safety measures even prior to commencement of lockdown on 16 March 2020

ABOUT PEOPLE'S BANK

Key differentiators



OUR SCALE OF OPERATIONS

- **LKR 2.2 Tn.**
+ total assets
- **LKR 1.8 Tn.**
+ customer deposits
- **LKR 1.7 Tn.**
+ loan book

"The country's second largest"



CUSTOMER BASE

- **14.0 Mn.**
+ customers

"The country's largest Banking customer base"



ISLAND WIDE REACH

- **741** branches
- **244** Self Banking Units
- **4,000**
+ supplementary ATM network

"The country's largest network"



MOBILE BANKING POPULARITY

- **1 Mn.**
+ mobile app downloads

"The country's most downloaded Banking app"



EMPLOYEE BASE

- **63.9%**
+ work force with over 10 years service and 61.3% Female

"The industry's top two largest employers. Highest female representation"



BRAND VALUE

- **LKR 44.75 Bn.**
Rating: AAA-
(Source: Brand Finance)

"One of country's top 3 highest valued brands"

OUR GROUP

The People's Bank Group comprises the People's Bank and its subsidiaries, People's Leasing & Finance PLC and People's Travels (Pvt) Ltd.

People's Bank is the largest contributor to the Group, accounting for over 90% of the assets and over 85% of the profit after tax.



PEOPLE'S BANK

Year of incorporation	1961
Customer segments	Individuals Micro Enterprises Small and Medium-sized Businesses Corporate, Government, and State-owned Enterprises
Main products and services	Retail banking Enterprise banking Corporate banking International banking
Performance highlights	Assets: LKR 2,230 Bn. Profit before tax: LKR 21.2 Bn.
Number of branches	741
Staff strength	7,692



PEOPLE'S LEASING & FINANCE PLC

Ownership	75%
Year of incorporation	1995
Customer segments	Individuals Micro Enterprises Small and Medium-sized Businesses
Main products and services	Leasing and hire purchases Microfinance Deposits Loans
Performance highlights	Assets: LKR 182 Bn. Profit before tax: LKR 4.1 Bn.
Number of branches	104
Staff strength	3,332



PEOPLE'S TRAVELS (PVT) LTD.

Ownership	99%
Year of incorporation	1993
Customer segments	Individuals Micro Enterprises Small and Medium-sized Businesses
Main products and services	Inbound travels Outbound travels Destination management
Performance highlights	Assets: LKR 97 Mn. Loss before tax: LKR 23.6 Mn.
Number of branches	3
Staff strength	22

VISION, MISSION AND VALUES

OUR VISION

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

OUR MISSION

- ➔ We are in the business of providing financial services that contribute to the quality of life, and enterprise development, via affordable, accessible, and efficiently delivered solutions. We empower and develop our human resources, so that they will care for and protect our customers
- ➔ We contribute to national economic development while being competitively profitable
- ➔ We believe in "giving back" to the society we operate in while being sustainable in our business practices



TRUSTED BY MILLIONS PROVEN BY BILLIONS

Over 7.3 Million
Transactions

Over ONE Million
Downloads

Over LKR 129 Billion
Transaction Values

Over LKR 4.5 Billion
Bill Payments

Over LKR 116.7 Billion
Fund Transfers



As we become the first bank in Sri Lanka to reach one million downloads, we thank our valuable customers for the trust they have placed in us.

OUR JOURNEY

1987

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

1989

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

1986

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

1984

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

1982

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

1981

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

1977

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

1975

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

1973

A comprehensive rural credit scheme was launched to provide both production and consumption credit facilities. The Bank initiated the "Ganu- Denu" practice, identifying itself with the traditions of the Sinhala and Tamil New Year and encouraging customers to transact with the Bank at the auspicious time.

1971

The Bank's hundredth branch was opened at Marandaghamula.

1970

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

1967

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

1965

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

1961

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

1962

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

1963

The Bank commenced its pawning services.

1964

The Co-operative Rural Banking Scheme was inaugurated.

OUR JOURNEY

1990

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

1991

The first ATM was installed at our Headquarters Branch.

1992

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

1993

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

1994

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

1996

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

1995

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

1997

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

1998

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

2001

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

2000

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

1999

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

2002

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

2003

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

2004

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

OUR JOURNEY

2012

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

2013

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

2011

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

2009

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

2010

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

2008

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

2007

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

2005

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

2006

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

OUR JOURNEY

2014

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

2015

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

2017

The consolidated contribution towards national economic development over the last ten years surpassed the LKR 150.0 Bn. The Bank received a new capital infusion of LKR 5.0 Bn. Opened Sri Lanka's first fully-digitalised branch in Colombo and received the prestigious ISO/IEC 27001:2013 quality certification for Information Security Management first for any State bank in the Nation. The Bank became the 400th Largest Bank in Asia, was included amongst the World's Top 1000, crowned "Country's Best Bank in 2017" and was recognised as the second most valuable Sri Lankan brand. The Bank was conferred the exclusive "People's Service Brand of the Year" and "People's Banking Service Provider of the Year" for the 11th consecutive year.

2016

The Group achieved the rupees one trillion milestones in both deposits and advances during the year, the only financial services group to achieve two trillion rupee feats in a single year. The Bank was awarded the "Best Banking Group in Sri Lanka" and the "Most Sustainable Bank in Sri Lanka" by World Finance Banking Awards for the third consecutive year. It was also adjudged the 387th largest Bank in Asia. The Bank launched self-banking centres comprising cash deposit machines (CDM), ATMs and kiosks in seven locations in Colombo and launched a new logo to reflect the Bank's evolution.

2018

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

2019

The Bank raised LKR 10.0 Bn. via debenture issue post People's Bank (Amendment) Bill passed by the Parliament. SBUs reached 239 - a feat achieved in just three years. People's Wave app became one of the most downloaded finance apps in Sri Lanka. The Bank received numerous local and international awards including the Best Digital Bank 2019, the Best Digitization Initiative Programme, the Best Mobile Banking Application for 2019, the Best Retail Bank in Sri Lanka and the Most Improved Retail Bank in Asia Pacific, Middle East and Africa during 2019. ADB recognised People's Bank as the Leading Partner Bank in Trade Finance operations in Sri Lanka. The Bank signed the largest ever and the longest tenor bilateral funding facility secured by any commercial bank in Sri Lanka to date.

2020

The Bank's operates the largest digital footprint in Sri Lanka, and processed over LKR 1.0 Tn. in transactions via its digital channels. Following the COVID-19 pandemic, the Bank extended unparalleled support to the Nation, customers and the general public. People's Bank successfully raised LKR 20.0 Bn. Tier II Debentures which is the highest-ever by the industry to-date. Was the only entity amongst the Top 3 and only state bank to have a positive incline in brand value. Gaining both local and international acclamation, the Bank was recognised amongst the Top 1000 Banks in the World 2020, 400 largest banks in Asia, recognised as the Best Digitized Bank in Sri Lanka and as the Most Admired Company in Sri Lanka by the International Chamber of Commerce Sri Lanka and Chartered Institute of Management Sri Lanka (CIMA). The People's Bank Annual Report was accorded the Best in Sri Lanka at the International ARC Awards 2020.

GRI 102-7

FINANCIAL HIGHLIGHTS

	Bank			Group		
	2020	2019*	Change %	2020	2019*	Change %
Operating performance (LKR Bn.)						
Interest income	179.7	186.7	-3.7	207.0	219.9	-5.9
Net interest income	60.9	61.2	-0.4	74.4	78.6	-5.3
Gross income	191.0	199.7	-4.4	223.9	238.2	-6.0
Operating profit before VAT and tax	25.1	28.6	-12.2	29.3	37.2	-21.1
Profit before tax	21.2	19.7	7.9	24.6	25.7	-3.9
Taxation	7.1	6.7	4.6	8.6	9.5	-9.7
Profit after tax	14.2	12.9	9.7	16.1	16.2	-0.5
Dividends paid to GOSL	3.0	2.4	25.0	3.0	2.4	25.0
Financial position (LKR Bn.)						
Total assets	2,230.1	1,873.4	19.0	2,400.6	2,049.8	17.1
Gross loans and receivables	1,723.5	1,386.5	24.3	1,876.2	1,543.7	21.5
Total deposits	1,835.1	1,491.4	23.0	1,935.2	1,588.9	21.8
Shareholders' funds	102.0	95.0	7.4	139.1	130.0	7.0
Performance ratios (%)						
Return on average assets (before tax)	1.0	1.1		1.1	1.3	
Return on equity	14.4	13.9		12.0	12.8	
Cost to income ratio	54.3	61.8		53.5	61.3	
Non-performing loans ratio	3.2	3.3		3.9	3.7	
Provision coverage	64.5	60.0		64.8	62.0	
Statutory liquidity ratio – DBU	25.6	29.5				
– OBU	60.5	34.6				
Loans to deposit ratio	93.9	93.0		97.0	97.2	
Capital adequacy ratio – Tier I	9.5	10.7		10.7	11.6	
– Total	15.5	14.7		15.6	14.9	
Shareholder ratios (LKR)						
Earnings per share	14,175	12,926		15,230	14,985	
Net asset value per share	101,984	94,964		139,111	130,016	

* Certain comparative figures have been adjusted to conform to the current period presentation.

GRI 102-7

NON-FINANCIAL HIGHLIGHTS



CUSTOMER VALUE

	2020	2019
Number of internet and mobile banking customers	1,622,907 ↑ 12.7%	1,440,493
Number of branches	741 ↑ 0.3%	739
Average monthly People's Wave app downloads	30,000 ↑ 20.0%	25,000
Self banking units outside Western Province	156 ↑ 1.3%	154
Number of digital deposits customers (Mn.)	1.1 ↑ 83.3%	0.6
Average number of visitors to Peoples' Web (monthly)	81,000 ↑ 41.1%	57,405



EMPLOYEE VALUE

	2020	2019
Retention rate (%)	98.1 ↑ 1.6%	96.6
Employees outside the Western Province	4,625 ↑ (1.9%)	4,716
Female employees (%)	61.3 ↑ 0.5%	61.0
Employees with over 10 years service	4,920 ↑ 57.1%	3,131
Profit per employee (LKR '000)	1,843 ↑ 11.7%	1,650



NATIONAL CONTRIBUTION

	2020	2019
Taxes paid to Government (LKR Bn.)	11,421 ↑ (34.3%)	17,397
Dividend paid to state (LKR Bn.)	3,024 ↑ 25.0%	2,420



BUSINESS PARTNERS

	2020	2019
Number of registered suppliers	242 ↑ 0.00%	242
Amount paid to local suppliers (LKR Bn.)	10.3 ↑ 6.4%	11.0



COMMUNITY

	2020	2019
Value of community based loans granted (LKR Mn.)	22,967 ↑ 192.5%	7,852
Number of community based loans granted	37,064 ↑ 17.0%	31,686



ENVIRONMENT

	2020	2019
Renewable energy consumption (GJ)	6,236.6 ↑ (4.0%)	6,499.3
Energy intensity per employee (GJ)	9.52 ↑ 1.8%	9.35
Non-renewable energy consumption (GJ)	5,979.2 ↑ (1.5%)	5,888.0

LETTER FROM THE CHAIRMAN



SUJEEWA RAJAPAKSE
Chairman



In this extraordinary year, what determines our success is our national value added and customer centricity which was at the heart of every decision making process. Being the Bank of the people, we bear a great responsibility to assist the Government to restart the economy and help the people of our Nation to get through the deepest and most abrupt economic reversal ever known.

GRI 102-14

LETTER FROM THE CHAIRMAN

In a year which brought unprecedented challenges, People's Bank demonstrated tremendous financial and operational resilience. Not only did we enter the crisis well-capitalised, our significant, multi-year investments in our people, processes, and technology positioned us well to serve the people and our Nation.

It is my pleasure, on behalf of the Board of Directors, to present to you the People's Bank annual report of 2020.

Stoic service in a challenging year

To say that 2020 was a difficult year would be an understatement. While economies around the world are still reeling from the impact of the global pandemic, the Sri Lankan economy had been under pressure even before its onset. This was primarily due to macro level stresses, which included amongst other, the inevitable consequences which stemmed from a slowdown in economic growth, high inflationary pressure, interest rate volatility and imposition of additional taxes and levies which impacted industry earnings. The situation was further exacerbated by the Easter Sunday attacks.

In order to navigate the challenges of an unprecedented year, we focused on remaining accessible to our customers and the general public for all their banking needs and supporting the Government in its endeavours to preserve and protect the economy from further consequence and to help in its revival. It was our resilience and agility, dedication and commitment of our people and digital capabilities that enabled to meet and exceed the expectations of our customers and support our Nation through difficult times.

A first responder to economic revival

Even through the challenges, the pandemic has unified us all in a manner previously unseen, propelled us to collaborate for a common cause and instilled a greater sense of discipline. From an economic development perspective, it has brought agriculture to the fore, emphasised the importance of self-sufficiency, healthcare and wellness and reinforced that technology is the way forward. Whilst creating a level playing field in the retail sector, the pandemic has shown that flexibility, adoptability and innovation are crucial for business survival and reinforced the importance of promoting local industries and nurturing the micro small and medium scale enterprises which is key to our Nation's economic revival.

In this extraordinary year, what determines our success is our national value added and customer centricity which was at the heart of every decision making process. Being the Bank of the people, we bear a great responsibility to assist the Government to restart the economy and help the people of our Nation to get through the deepest and most abrupt economic reversal ever known. Leading the country's effort to realise the Vistas of Prosperity for all, everyone

across the Bank, from the leadership to the most junior team member worked with empathy, adaptability and resolve, placing the country first. Whilst realigning our strategic direction with the clear purpose of supporting economic revival, we were the first responder Bank to roll out the Central Bank relief program for the benefit of the customers.

From offering moratoriums on loans and extending loans to struggling enterprises including small scale entrepreneurs (SMEs) at highly favourable terms, to maintaining our presence and reach largely undiminished across our branch network, through the 24/7 operation of our digital services and mobile ATMs, we supported our 'people' as only Peoples Bank could. The COVID-19 relief extended by us is the largest for any financial services group, which benefited over 460,000 retail customers, and more than 21,000 businesses.

The extent of loan schemes introduced within a short span of time attest to the degree of commitment and care we extend to the people and our commitment to advance financial inclusion. Most of these loans are aligned to support the Government's effort to create a self-sufficient nation. The numerous facilities launched during the year were targeted at developing agriculture, SMEs, empowering youth and women, supporting the differently abled and senior citizens, and professionals of our country. Over LKR 27.0 Bn. was extended to revive SMEs, including LKR 13.7 Bn. in Saubagya loans, and over LKR 10.0 Bn. to the agriculture sector.

The magnitude of financial support to the State during the year was the largest-ever in the history of our Bank. During one of the most difficult of circumstances, we supported the State and other State Owned Enterprises by granting over LKR 320.0 Bn. facilities and LKR 358.0 Bn. to the Government Treasury to maintain the Rupee interest rates at desired levels.

A resilient performance

The consolidated net loans grew by 21.6% YoY to LKR 315.7 Bn. and account for close to one-third of overall net sector credit extended during the period ended 31 December 2020.

Consolidated assets growth reached LKR 2,400.6 Bn. reflecting an all-time high of 17.1% YoY. Total deposits too swelled by 21.8% YoY to LKR 1,935.2 Bn. which was the highest-ever growth for the Bank. Of deposit growth, 53.8% stemmed from Current and Savings Accounts – which indicate our brand strength and depositor confidence.

Reflecting fee waivers, concessions and the drop in trade finance activities during the year, the consolidated net fee reduced by 10.2% YoY whilst the consolidated operating income declined by 5.8% to LKR 90.8 Bn. in 2020. Consolidated post tax profit decreased by a marginal 0.5% to LKR 16.1 Bn. whilst at Bank level it increased by 9.7% YoY to LKR 14.2 Bn.

LETTER FROM THE CHAIRMAN

Reflecting the strong expression of investor confidence, the largest-ever Basel III, Tier 2-compliant, subordinated debenture issue in Sri Lanka was concluded, which strengthened the capital base of our Bank.

Bridging the digital divide

The pandemic has forced the banking sector to seek alternate working practices, such as working from home and flexible working hours, both of which have previously been uncharted territory for State organisations such as People's Bank. Due to pandemic-related restrictions, the industry has also witnessed an exponential migration of its customers to digital modes of banking which will inevitably offer tangible financial benefits in the years to come. We are ready to capitalise on these opportunities. Digital will be at the heart of every strategic initiative and decision-making process. The regulator's push towards a more cash less society has already resulted in marked changes to the way people, bank and shop in Sri Lanka. Technology-centred collaborations between institutions will also be inevitable.

Despite the challenges posed by the pandemic, we remain focused on accelerating our shift towards digitization and our ability to create industry-leading experiences for all customers and people of Sri Lanka. Leveraging our pre-crisis strength and momentum, we are strengthening a high-performance, digitally enabled bank that is geared for the future. Our digital operating models that encompass every aspect, continued to drive efficiency, support innovative ways of working and deliver the speed, simplicity and flexibility that customers expect. The resilience and adaptability of our technology infrastructure enabled our people to transition to working from home in our rapid response to the pandemic. Our success in the digitalisation sphere enabled masses to benefit from technology that is in par with the world's best. Over LKR 1.0 Tn. transactions were processed via People's Bank ATMs, CDMs and Kiosks and over LKR 350 Bn. transactions were conducted through our internet and mobile platforms which was staggering 200% YoY increase.

Strength of foreign counter party relationships tested amidst extra-ordinary circumstances

With the sovereign rating downgrade, it is inevitable that the capacity of local banks to raise debt capital in overseas markets will be impacted. Maintaining the strength, stability and reputation of the borrowing institution, however, as well as the trust and confidence between the parties involved will remain important factors going forward. At People's Bank, we are pleased to state that, we have successfully maintained most of our counterparty relationships during this extraordinary time.

On a standalone basis, we are Sri Lanka's largest foreign currency borrower amongst Licensed Commercial Banks, a testament to our reputation and strength of relationships in the eyes and minds of our overseas counterparts. Attesting to our cordial and non-compromising relationship with our foreign counterparties including lenders, we have over 900 foreign correspondent and vostro relationships with an average length of relationship of over 20 years. This enabled us to raise LKR 164.4 Bn. foreign currency borrowings as at 31 December 2020.

Sound corporate governance and sustainability

Our efforts and endeavours to align with the Government's sub-policy initiative towards an efficient nation that is free from corruption include the maintenance of an effective governance mechanism and zero tolerance for corruption. Championed by our leadership, openness and transparency remain essential elements in all our dealings. Clear and concise communication on this topic, combined with the necessary training and development for all employees, ensures our people across the board remain committed to ensuring the highest levels of good corporate governance.

We also have in place a robust State Enterprises Management Policy. The Bank's capital requirements continue to be managed through the tenets of this policy without compromising the sole ownership of the Government of Sri Lanka or being a burden to the Bank's sole shareholder for new capital.

Contributing towards the United Nation's Sustainable Development Goals, we continue to focus on areas such as alleviating poverty and hunger, improving health and well-being, supporting quality education, gender equality, decent work and economic growth and clean and affordable energy. In addition to supporting youth and female entrepreneurs, we continue to focus our energies on the micro and SME segment even as the industry is reasonably likely to increase their credit allocation to this segment in order to hasten an economic revival.

We have also been recognised and lauded for adopting international standards in corporate reporting. For our 2019 Annual Report titled "The Frontier," People's Bank was the recipient of the Country's Best Annual Report Award at the International ARC Awards, considered the Academy Awards of Annual Reports.

Our commitment to create sustainable value is demonstrated by 'The People's Green Pulse' policy which seeks to address climate change and reduce our carbon footprint. Through our many initiatives to promote digital banking we make a significant effort to bring our customers to transition to a low-carbon future.

LETTER FROM THE CHAIRMAN

2021 outlook

The Sri Lankan banking industry has already witnessed a substantial change, with the pandemic hastening the adoption of digital banking and encouraging banks to adopt innovative methods to meet stakeholder needs – including those of customers and employees. Many of these innovations involve enhancing operational efficiency, reducing costs and providing higher customer satisfaction, all of which will remain beneficial to the industry even after the world is better able to manage the pandemic.

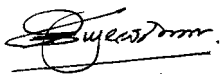
Sector strengths, among others, include sound liquidity, strong solvency, digital capabilities, innovation and a skilled work force in addition to being well regulated. From an improvement perspective, rural Sri Lanka requires greater focus as do MSMEs. In addition, strengthening information security and cyber security should be another critical focus for banks.

In terms of the outlook for 2021, it is reasonably expected to be a year of rebound not only locally but globally. With notable developments already taking place in the COVID-19 vaccine development arena, I look forward to the future with a great degree of optimism.

Expressions of gratitude

For their valued counsel and support, I extend my sincere appreciation to His Excellency the President, the Honourable Prime Minister, the Secretary to the President, and the Secretary to the Treasury. I also wish to thank the officials at the Central Bank of Sri Lanka for their guidance on regulatory matters. My sincere appreciation is extended to my colleagues on the Board for their unstinted support and wise counsel. Thank you to the management team led by able CEO/GM and all employees for their dedication and valued contribution during the year - without their selfless commitment to serving our nation, the Bank would not have been able to achieve so much in a challenging year. My deep gratitude also goes out to our customers, and other stakeholders for their unswerving loyalty.

While the road to recovery is still being mapped, we are confident that as a catalyst and accelerator of growth, we will navigate the challenges ahead, seizing opportunities to lead in the post-pandemic world. We have laid a firm foundation, with a clear strategy in place. Our employees are dedicated and engaged. We are led by our customers – all 14 million of them – whose resilience reinforces our own as we uplift the economic stability of the people and our Nation.



SUJEEVA RAJAPAKSE
Chairman

25 February 2021

CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW



RANJITH KODITUWAKKU
CEO/GM



Despite the unprecedented challenges, People's Bank rose up to the national duty with a shared responsibility. The investments made by the Bank in its digital infrastructure and efforts made during 2019 to bolster its regulatory capital levels enabled the Bank to smoothly weather the pandemic storm, catering to the unprecedented demand for digital banking solutions and absorbing the economic shock on behalf of our customers.

CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW

The year under review reminds me of the quote "I can't control the wind but I can adjust the sail". This ultimately sums up what we did at People's Bank during 2020 despite the many challenges posed by the COVID-19 pandemic.

A year of unprecedented challenge and an extraordinary rise to national duty

2020 was a year of challenge on many fronts. It was the year which saw heart breaking human tragedy around the world, border closures and human movement control in a manner previously unseen and the year which witnessed the worst economic stress event since the great depression in the 1930s. The pandemic brought many countries and their economies to a complete standstill – leaving no individual immune or business unscathed from its consequences.

Despite the unprecedented challenges, People's Bank rose up to the national duty with a shared responsibility. The Bank's delivery during this time self attests to its overarching commitment to support the Government in their numerous initiatives to preserve the economy and play a vital role in its revival. The investments made by the Bank in its digital infrastructure and efforts made during 2019 to bolster our regulatory and regulatory capital levels enabled the Bank to smoothly weather the pandemic storm, catering to the unprecedented demand for digital banking solutions and absorbing the economic shock on behalf of our customers.

The Bank of the People – our ethos shines through

In times of distress is when the support from the Financial Services Provider is most required. We are proud to say that we were with our customers at every step of the way during the pandemic; starting from the height of the lockdown when most things were yet unknown, implementing the most ambitious customer relief measures in the country's history, with deferrals on lending and targeted support. We were amongst the "first responder" banks to roll out the Central Bank's relief program to customers with such relief on a consolidated basis touching the lives of close to 460,000 individuals, which was most for any financial services organization, and over 21,000 businesses. However, the consolidated cost of such interest concessions exceeded LKR 5.0 Bn.; which speaks volumes to the extent we gave back for the benefit of both our customers and our country. In addition, despite the lockdown, over 70% of the Bank's branches remain open even during the peak of the lock down for essential service banking and all our 1,000 self-servicing terminals throughout the country, close to 1000 other owned ATMs together with our digital platforms; including mobile and internet banking and customer service desks were functioning on a 24/7 basis with over 99.0% uptime continuously maintained. Our mobile banking services reached over 1,000 locations around the Nation, providing banking access to some of the neediest communities. The real heroes of our

success is ultimately our staff members who worked tirelessly and selflessly during this time putting customer and national cause ahead of all else.

Unparallel growth

Total financial facilities extended during the year exceeded LKR 300.0 Bn. on a consolidated basis. This was the highest recorded by this Institution to date. Of this, over two third being to the State and Other State Owned Enterprises. Multiple loan schemes were also launched for the benefit of all its customers of varying socio-economic and demographic profiles and small and medium scale enterprises of diverse nature, scale and scope, whilst also simultaneously encouraging women entrepreneurship. The *Saubagya* loan scheme, *Aswenna* loan scheme, Made in Sri Lanka and *Vanitha Saviya* are some of the concessionary loan schemes launched during the year.

Moreover, salary and pension payments, including *Samurdhi* payments, surpassed LKR 130.0 Bn. was facilitated through our island wide branch network just during peak of the lock down. During such extraordinary times and despite such extraordinary measures, we were able to not only maintain positive bottom line but also record the Bank's strongest ever balance sheet growth to date which remains testament the Institution's resilience and its capacity.

Maintaining financial soundness

Despite the significant impact of the moratoriums, the Bank reported profit after tax of LKR 14.2 Bn. as compared with LKR 12.9 Bn. during 2019. On a consolidated, it was LKR 16.1 Bn. and LKR 16.2 Bn., respectively. Its consolidated assets grew by 17.1% to surpass LKR 2.4 Tn. whilst its deposit base reached LKR 1.9 Tn. at end December 2020 growing by 21.8% from LKR 1.6 Tn. at end December 2019.

Despite the out of the ordinary circumstances, consolidated taxes and dividend payments to the Government amounted to LKR 16.8 Bn. in 2020. On a Bank standalone basis, this was LKR 14.4 Bn.

Despite the adverse operating context following the COVID-19 pandemic, we successfully raised a LKR 20.0 Bn. debenture which was the single largest Basel III, Tier 2-compliant, subordinated debenture issuance the country has seen to date. This reflects the strong investor confidence in the Institution. Furthermore, during a year when interest rates were well into double digits, we took a pioneering role to bring down the interest rates to a single digit.

Digitally fortified

We have invested over LKR 3.0 Bn. in building a single, fully integrated digital banking system which connects all our functions and processes, and customer interfaces such as web and mobile apps. This

CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW

encompasses the entire infrastructure including critical components like governance, security, and risk. With the global pandemic having accelerated the demand for digital banking and financial services exponentially, being at an advanced stage in our digital journey, we were able to meet such demands almost immediately. During the period We continue to create digital operating models that extend to every area, driving efficiency, supporting novel ways of working and delivering the speed, simplicity and flexibility that customers expect. The resilience and adaptability of our technology infrastructure saw our employees' transition seamlessly to work from home in our rapid response to the pandemic. Our real-time customer onboarding platform; People's Wiz, the first for any bank in Southeast Asia, Africa, and the Middle East has on-boarded over 785,000 customers, since its launch in 2017. People's Wave our mobile banking app which is the most downloaded finance app in Sri Lanka, is making a significant contribution to the bank's mission to drive financial inclusivity with over 70.0% of active People's Wave users outside the Western Province.

An exemplary team

Demonstrating tremendous resilience over the past year, our staff members went above and beyond to serve the Nation and support our customers, communities and each other despite the adverse circumstances caused by the global pandemic. Their dedication and commitment enabled to deliver and uninterrupted service even through the lockdown curfews. We proactively and rapidly deployed extensive measures to ensure our premises remain as safe as possible while supporting the well-being of all staff members.

Investing in our youth

Contributing towards the Government's sub-policy initiative "A productive citizen and a happy family," we channelled over LKR 400.0 Mn. in financial assistance to support the youth of our Nation. With a range of initiatives including providing vocational training opportunities to university undergraduates to extending financial assistance of over LKR 170.0 Mn. to purchase laptops and rewarding high performers of the Grade 5 scholarship examination, we continued to empower our next generation. Over LKR 37.0 Bn. savings were mobilised during the year through our digitally-enabled "Yes" youth saver account. Our children's savings deposit base, which is the largest in Sri Lanka, exceeded LKR 80.0 Bn. as at 31 December 2020. We are proud in our ability to open accounts for close to 60.0% of the country's new-borns.

Supporting working women and families

As an Institution, we highly value the economic and social contribution of women to our nation. At People's Bank, approximately 60.0% of its employees are women with close to 50.0% of our corporate and executive management represented by women – a feat not many

Bank or financial services providers in the country can boast of. During the year alone, LKR 286 Mn. in financial facilities were extended to support women entrepreneurs by our Vanitha Saviya program.

As part of our goal to ensure a comfortable home for every family, home loan financial facilities were extended to over 9,000 customers amounting to over LKR 105.0 Bn. In addition, we provided home loan facilities for all our employees at highly concessionary rates of interest.

Recalibrating strategy for 2021 and beyond - country first

As the Bank's five-year strategic plan (2016- 2020) came to an end, and the new operating circumstances and priorities considered. we revisited our strategic and tactical plans for the future. In tandem with the changes in the digital landscape, we ensured our plan encompassed the agility and dynamism as only requisite and necessary. Our latest plan (2021-2023) will encompass areas that are in line with the growth of the Bank and the State, prioritising our contribution to the overall economic development of Sri Lanka. Areas such as further enhancing the Bank's digital capabilities and other infrastructure and continuous human resource development will be given priority. The plan for the next two years is driven by the Bank's alignment with the Government's development plan, which gives priority to SMEs and to market and customer segments most vulnerable as well as those with the most economic value potential.

Recognitions received

Despite the many challenges, in recognition of our efforts on many fronts and our quest to push the boundaries of success and performance, the Bank continued to receive awards and accolades both locally and internationally

From a digital banking perspective, at the Asia Money Awards, People's Bank was bestowed the Best Digital Bank in Sri Lanka Award 2020 - which was the third consecutive year while at the World Finance Digital Banking Awards 2020, we were accorded the Best Consumer Digital Banking Award 2020 and the Best Mobile Banking App Award for 2020. In addition, the International Business Magazine awarded People's Bank the Best Digital Bank in Sri Lanka for the year 2020.

From a service perspective, at the SLIM Neilson's and People's Awards. People's Bank won the Service Brand of the Year and the Banking Services Provider of the Year Award for the 14th consecutive year.

From a global ranking perspective, People's Bank was once again ranked among the top 1000 banks in the World by The Banker's Magazine UK and was in the list of the 400 largest banks in Asia by the Asian Banker Magazine either of which for 2020.

CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW

Turning to other awards, during 2020, People's Bank was recognized as one of the Ten Most Admired Companies in Sri Lanka by the International Chamber of Commerce Sri Lanka and the Chartered Institute of Management Sri Lanka (CIMA). In addition, at the National Business Excellence Awards 2020, People's Bank was the Winner in the Banking sector while at the Asian Development Bank (ADB TFP Awards 2020), the Bank won an award for the Best Trade Deal of the Year.

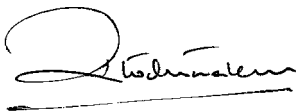
In addition, its 2019 Annual Report titled Frontier was the recipient of the Best in Sri Lanka Award at the International ARC Awards - which was one of the 45 Grand Award Winners, globally

Deeply grateful!

It a year of many highs and lows, the Bank has remained strong thanks to our team for going above and beyond the call of duty. I wish to extend my deep gratitude to our Chairman and the Board of Directors for their invaluable guidance and leadership from the front. My appreciation is also extended to the Senior Officials at General Treasury, Ministry of Finance and the Central Bank of Sri Lanka for their wise counsel on all matters of a related nature. A big thank you to my corporate and executive members and staff at all levels for their hard work and dedication without which none of this is possible. Importantly, our gratitude to our customers for their continued trust and confidence in the Institution

Looking ahead, whilst our pandemic related challenges are far from over, considering the resolve of our work force, our unwavering nation focus and customer centricity coupled with our industry pioneering digital capabilities well places us to seize opportunities in the year and years ahead

We look forward to the future with a great degree of optimism!



RANJITH KODITUWAKKU
Chief Executive Officer/General Manager
25 February 2021

GRI 102-22, 102-23

BOARD OF DIRECTORS



From left to right: Mr Sudarshan Ahangama, Mrs Bhadrani Jayawardhana, Mr Isuru Balapatabendi, Mr Keerthi Goonatillake, Mr Sujeewa Rajapakse



From left to right: Mr K A Vimalenthirarajah, Mr Malindu Ranasinghe, Mr Manjula Wellalage, Mr Kumar Gunawardana

BOARD OF DIRECTORS

Mr Sujeewa Rajapakse

Chairman

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

During his professional career that spanned nearly four decades, he held the honorary positions of President, Vice President and Council Member (elect) of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), Former Chairman of Auditing Standards Committee of CA Sri Lanka, President of Practising Accountants Forum of Sri Lanka, Treasurer of Sri Lanka Cricket, Treasurer for Cricket World Cup 2011, Board Member and technical Advisor to South Asian Federation of Accountants (SAFA), Technical Advisor to Confederation of Asia Pacific Accountants (CAPA) and Council member of University of Sri Jayewardenepura.

He is the current Chairman at People's Leasing & Finance PLC.

He has served in the directorates of National Development Bank PLC, NDB Capital Ltd. – Bangladesh, The Finance Company PLC, Unidil Packaging.

Currently he is serving as the Deputy Chairman at Softlogic Life PLC, Board member at – Haycarb PLC, Dipped Products PLC, Lanka Holdings (Pvt) Ltd.

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

Mr Kumar Gunawardana

Director

Kumar Gunawardana was appointed to the Board of Directors of People's Bank on 26 December 2019 as a Non-Executive Director. He commands over 40 years of experience in diverse areas of banking. Having started his career with Commercial Bank PLC in 1979, he has moved on to Amsterdam Rotterdam Bank

(Amro Bank), ABN Amro Bank and finally to National Development Bank PLC (NDB). He has served in Senior Management positions for over 20 years having first appointed as an Assistant Vice President of ABN AMRO Bank in the year 2000. His areas of expertise is wide and varied and include branch network management, institutional banking, trade finance, operations, administration and services.

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

Mr Sudarshan Ahangama

Director

Sudarshan Ahangama is a fellow member of The Institute of Chartered Accountants of Sri Lanka. He serves on the Board of MAS Holdings, as its Group Finance Director for 15 years where he had responsibilities for the finance function in 17 countries across multiple regions and currently as Director Strategic Investments handling the Group's mergers acquisitions, cross border transactions, venture capital investments and organisational restructuring.

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

Mr Isuru Balapatabendi

Director

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

Mr Balapatabendi served as a State Counsel in the Attorney General's Department, prior to being appointed a Diplomat to the Embassy of Sri Lanka in The Hague, The Netherlands from 2008 to 2010, during which he served as the

representative of Sri Lanka, to the organisation for Prohibition of Chemical Weapons and Hague Convention of Private International Law (HCCH). He was also appointed as the Head of Chancery at the Sri Lankan Mission in The Hague.

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

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

He has served as an executive committee member of the Bar Association of Sri Lanka. He was appointed the Chairman of the Junior National Law Conference in 2007 and as the Convener of the National Law Conference 2020. He is appointed as the Chairman of People's insurance PLC.

Mr Malindu Ranasinghe

Director

Mr Malindu Ranasinghe holds a BSc (Hons) Degree in Business from Manchester Metropolitan University (UK) and is currently reading for his MBA specialising in Marketing at University of Bedfordshire (UK). He is the Director/CEO of the award winning private higher education provider, Oxford College of Business. He counts for over 19 years of experience in leading teams and marketing products and services.

Furthermore, Mr Ranasinghe was instrumental in ensuring flexibility in response to an increasingly demanding education sector and the continued strategic development of professionals that have a yearning to learn and grow. He has an excellent track record of building and strengthening online services and platforms to meet and exceed the high expectations of customers from diversified industries. Over the years, his unique leadership style and determined commitment towards creating a sustainable and resilient workplace at Oxford College of Business, that minimises the impact on the environment while ensuring meaningful contribution towards society, has been recognised by state and private institutions locally and internationally.

BOARD OF DIRECTORS

Mr Keerthi Goonatillake

Director

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

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

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

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

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

Mr Manjula Wellalage

Director

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

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

Mr K A Vimalenthirarajah

Director

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

He is an Attorney-at-Law.

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

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

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

Mrs Bhadrani Jayawardhana

Director

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

Mrs Jayawardhana received her B.A. (Hons) degree from the University of Peradeniya in 1986. Thereafter she obtained several post-graduate qualifications that include Master of Planning and Regional Development from the University of Colombo (2016), Master of Public Management from SLIDA (2010) and Post Graduate Diploma in Business Management from the University of Rajarata (2005)

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

CORPORATE MANAGEMENT



Front row left to right: Mr Azzam A Ahamat, Mr B M Premanath, Ms G P R Jayasinghe, Mr K B Rajapakse,
Back row left to right: Ms Kumari Senaratne, Ms N R Wijayaratne, Ms P S J Kurukulasoorya, Ms V K Narangoda

CORPORATE MANAGEMENT



Front row left to right: Mr Ranjith Kodituwakku, Mr Rohan Pathirage, Mr Clive Fonseka, Mr G Lionel Galagedara, Ms M A D Muditha Karunaratne
Back row left to right: Mr P R S Jayatissa, Ms G M R P Wijerathna, Mr Dhammika Dasa, Mr Lalith Withana

CORPORATE MANAGEMENT

Mr Ranjith Kodituwakku

Chief Executive Officer/General Manager

Mr Kodituwakku is a veteran banker, serving as the Chief Executive Officer/General Manager of People's Bank since June 2020. He joined the Bank in 1982 and has nearly four decades of multifaceted experience in local as well as cross border operations.

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

He is a key figure in driving the Bank towards digitalisation on mapping business requirements to a digital platform by adopting best practices in the industry and re-engineering business processes for which the Bank was awarded many prestigious awards/recognition both internationally and locally. He was also bestowed upon "Sri Lanka Innovation Leadership Awards 2020" awarded by World Innovation Congress, for his innovative role played in transforming the Bank from a conventional set up to contemporary set up through digitalisation.

Additionally, he has played a key role in the efforts carried out by People's Bank to re-open Bank's branches in the Northern Province with the aim of rebuilding the lives of the people and strengthening the economy of the region soon after the end of humanitarian operation in 2009.

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

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

Mr K B Rajapakse

Senior Deputy General Manager – Payment and Digital

Mr Rajapakse is the Senior Deputy General Manager to the Card Centre, Payment and Digital of the Bank from November 2020 and he was the Senior DGM to the Retail Banking from 2018 to 2020. He joined the Bank in 1987 as a Management Trainee and counts over 33 years of experience in the People's Bank.

He has gained extensive exposure in various management level capacities in the branch network of the Bank and Corporate Banking Division. He has 12 years of experience in Corporate and Executive Management positions. From 2018 to 2020, he has guided the Bank's main deposit portfolio and retail loan book which accounts for over 40% to the total portfolio. At present he oversees the Card Centre, Digitalisation and Process Management Departments.

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

Mr Rajapakse is presently the Chairman of People's Leasing Fleet Management Limited and People's Micro Commerce Limited. He has served as an Ex-officio Board member in several regulatory organisations namely, The Governing Board of Institute of Bankers of Sri Lanka, Regional Development Bank and also served as an Alternate Director of Credit Information Bureau of Sri Lanka up to May 2019. At present, he is the Senior Vice President of the Association of Professional Bankers of Sri Lanka (APB).

Mr Rohan Pathirage

Senior Deputy General Manager – Legal

Mr Rohan Pathirage has been a senior member of People's Bank's Corporate Management team since 2010. He has Master's in Bank Management from Massey University, New Zealand and holder of a Postgraduate Diploma in Banking. He holds a Degree in Law from the University of Colombo and is an Attorney-at-Law. Mr Pathirage joined the Bank in 1995 and counts more than 25 years experience in Overall Management and Administration and Human Resources. During his tenure, he has played a key role to facilitate best practices in governance and has contributed towards the establishment of several subsidiaries of the Bank. He has been a member of the key management committees of the Bank.

Mr Pathirage serves as a Director on the Boards of People's Leasing & Finance PLC, Lankan Alliance Finance Company in Bangladesh, People's Micro Commerce, People's Leasing Fleet Management, and People's Travels (Pvt) Ltd. He is the Chairman of People's Leasing Havelock Properties Ltd. Prior to joining the Bank, he worked as General Manager of export oriented BOI company. He is an Alternate Director of the Board of the Institute of Bankers of Sri Lanka – IBSL and a member of the Academic Council of IBSL.

CORPORATE MANAGEMENT

Ms G P R Jayasinghe

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

Ms Renuka Jayasinghe joined the Bank in 1987 as a Management Trainee and counts over 33 years of experience in the field of banking.

During her career, she has covered the branch banking area at the levels of Branch Manager, Zonal Senior Manager, Regional Manager and Assistant General Manager, Deputy General Manager (Cooperative and Development) and Deputy General Manager (Retail Banking) and worked as Deputy General Manager (Business Support Service). Presently, she is working as the Deputy General Manager (Retail Banking, Process Management and Quality Assurance).

She holds a First Class Special Degree in BCom from the University of Sri Jayewardenepura and has a professional banking qualification (AIB), Sri Lanka. She is a Life Member of Association of Professional Bankers of Sri Lanka and the Institute of Bankers of Sri Lanka.

Mr Clive Fonseka

Head of Treasury, Investment Banking, and Financial Institutions

Mr Fonseka is a Fellow of the Institute of Bankers of Sri Lanka and holds a Master's Degree in Business Administration from Postgraduate Institute of Management of University of Sri Jayewardenepura. He has received a Distinction for the ACI Dealing Certificate and counts more than 27 years experience in Treasury Management. He is also a Certified Member (CMA) of the Institute of Certified Management Accountants of Australia.

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

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

Mr B M Premanath

Deputy General Manager – Channel Management

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

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

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

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

Mr G Lionel Galagedara

Deputy General Manager – Recoveries Department

Mr Lionel Galagedara is incharge of the Recoveries Department of the Bank. He joined the Bank as a Management Trainee and counts over 33 years of service at the Bank. His variety of experience covers the areas of Channel Management, Retail Banking, Corporate Banking, Project Financing, Credit Administration and Recoveries.

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

Mr Azzam A Ahamat

Head of Finance

Mr Ahamat joined People's Bank on 3 January 2017 and has over 19 years experience both locally and internationally across strategic financial management, alternate investments, and risk. His prior employers include some of the largest multinational professional service firms and other Tier I service providers across respective market spaces. He is a Fellow Member of the Chartered Institute of Management Accountants (UK), a Fellow Member of the Association of Chartered Certified Accountants (UK) and a Fellow Member of the

CORPORATE MANAGEMENT

Institute of Certified Management Accountants of Sri Lanka. He is also a Certified Practicing Accountant (AUST.), a Certified Member of the Chartered Institute of Securities & Investment (UK) and the Chartered Institute of Credit Management (UK) and a Technical Specialist of the Institute of Risk Management (UK).

Ms M A D Muditha Karunarathne

Chief Law Officer

Ms Muditha Karunarathne is an Attorney-at-Law with over 35 years of experience holding a Post Attorney's Diploma in Banking and Insurance and was the winner of the Banking Law prize (2007). Soon after passing out as an Attorney-at-Law she joined the Chambers of late Mr J E P Deraniyagala President's Counsel and thereafter worked as an Assistant to Chief Law Officer and the Company Secretary to the Browns Group of Companies.

She joined People's Bank as an Assistant Law Officer in 1992 and handled legal work in Kalutara and Galle Regions, Head Office – Legal Department and as the Head of the Land Redemption Department. She was promoted to the position of Senior Law Officer in 2006 and as a Senior Law Officer, supervised the legal work in the Legal Department, Head Office and Northern and North Eastern Provinces.

In 2007, she joined the Petroleum Resources Development Secretariat, the Regulatory Authority of Upstream Oil and Gas Industry in Sri Lanka which functions under the Ministry, as the Director Legal and Land and during this era she served as the Secretary to the Petroleum Resources Development Committee. During her 35 years of experience as an Attorney-at-Law she has gained immense exposure by participating in many local and international programmes, events, and forums.

Ms V K Narangoda

Deputy General Manager – Enterprise Banking

Ms Krishani Narangoda joined the People's Bank in 1987 as a Management Trainee and counts over 33 years of service in the Bank. She covered the areas of Branch Banking, Overseas Customer Services, Off-shore Banking and Corporate Banking under various management capacities and presently serves as Deputy General Manager-Enterprise Banking covers the areas of Commercial Credit, SME, Development Finance, Microfinance, Commercial Banking and Project Financing and Revival Unit.

She holds an Honours Degree (BSc Business Administration with Second Class Upper Division) from the University of Sri Jayewardenepura and Master's Degree in Business Studies from the Faculty of Graduate Studies, University of Colombo. She

is also an Associate Member of Institute of Bankers of Sri Lanka and Institute of Credit Management of Sri Lanka. She obtained an Advanced Certificate in Customer Relationship Management from the Postgraduate Institute of Management at University of Sri Jayewardenepura.

During her banking career she has participated in various banking/management programmes both locally and internationally. She is a Council member of Association of Professional Bankers of Sri Lanka and registered as an examiner of Institute of Bankers of Sri Lanka. She was elected as the President of People's Bank Officers' Association for the year 2019/20.

Mr P R S Jayatissa

Deputy General Manager – Human Resources

Mr P R S Jayatissa joined the Bank in year 1990 as a Management Trainee and he counts over 30 years of experience in the Bank, covering the branch operations in the branch network and human resources aspects. His professional experience, which spans over 20 years specifically in human resources with extensive knowledge in Human Resources Administration, includes sound industrial relationship management.

He has been exposed to both international and domestic training programmes with relevance to human resources. Mr Jayatissa is currently overseeing the duties as the Deputy General Manager - Human Resources of the Bank. He holds a Bachelor of Commerce (Special) degree offered by the University of Colombo. He has the Professional Banking qualification AIB - Sri Lanka and Associate membership of Institute of Bankers of Sri Lanka. Mr Jayatissa also possesses an Advanced Diploma in English Language for Administration and Academic purpose from the University of Colombo.

Ms P S J Kurukulasooriya

Deputy General Manager – Strategic Planning, Performance Management and Research

Ms Jayanthi Kurukulasooriya joined the Bank, as a Management Trainee in 1994 and counts over 26 years of experience in the banking field. Her experience mainly encompasses in the areas of Branch Banking, Credit, Staff Training, Human Resources Development, Credit Administration, Channel Management and Retail Banking. Prior to joining the Bank, she has gained experience as a Senior Assistant Accountant at the Road Construction and Development Company.

She holds a BSc Business Administration (Special) Degree with a Second Class Upper Division (Honours) from the University of Sri Jayewardenepura and Master's Degree in Business Administration

CORPORATE MANAGEMENT

(MBA) from the University of Colombo. She is a Fellow member (FIB) of Institute of Bankers of Sri Lanka, a member of AAT Sri Lanka, a Licentiate member of The Institute of Chartered Accountants of Sri Lanka and holds a Diploma in Human Resource Management (Dip HRM) as well.

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

Ms G M R P Wijerathna

Deputy General Manager – Risk Management

Ms Roshini Wijerathna is in charge of the Risk Management and Credit Control functions of the Bank. She joined the Bank in 1990 as a Management Trainee and counts over 26 years of experience in the Bank's Treasury. She deputised the Primary Dealer Unit of the Bank since 2003 and the Treasury later on prior to moving to the area of Risk Management in 2017. She holds a Bachelor of Science (Physical Science) with a Second Class Upper from University of Colombo, a Master of Business Administration (in Finance) from University of Colombo and a Diploma in Treasury and Risk Management from IBSL. She has obtained a distinction for ACI Dealing Certificate – ACI, Financial Markets Association and is an Associate member of the Institute of Bankers of Sri Lanka.

She is a past President and Secretary of the Association of Primary Dealers and currently a member of the Sri Lanka Forex Association & Association of Professional Bankers and an Exco member of the Association of Banking Sector Risk Professionals.

Ms N R Wijayarathne

Deputy General Manager – Transaction Banking

Ms Nipunika Wijayarathne serves as the Deputy General Manager of Transaction Banking, counting over 30 years of experience in banking, having joined the Bank in 1990 as a Management Trainee. She holds a BSc Degree in Agriculture from the University of Peradeniya and an MBA in Finance from University of Colombo.

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

Mr Dhammika Dasa

Chief Information Officer

Mr Dhammika Dasa joined People's Bank in August 2019 as the Chief Information Officer.

Mr Dhammika's 25 years of experience in the IT industry consists of Strategic Management, Programme Management, Project Management, Infrastructure Technology Management, Software Development and Implementation Exposure with Financial, Insurance, Banking, Manufacturing, Logistics, Leisure domain in Sri Lanka, Australia, and New Zealand. He has wide knowledge in information security implementations as well.

He holds a BSc Degree in Mathematics and Computer Science from University of Kelaniya. Prior to joining the Bank, he has held several Senior Management positions in Aitken Spence Group and KPMG Sri Lanka.

Ms Kumari Senaratne

Acting Deputy General Manager – Corporate Banking

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

She joined People's Bank in 1987 as a Management Trainee and has gained experience in the areas of International Banking operations, Commercial Credit, Retail Banking, and Corporate Banking under various capacities. She has contributed immensely by conducting several training programmes. During her career she has also participated in various programmes both local and overseas.

Mr Lalith Withana

Deputy General Manager (Actg.) – (Banking Support Services)

Mr Withana joined People's Bank as a Management Trainee in 1990 and counts nearly 30 years service. He holds a second class (Lower) Degree in BSc. (Agriculture) from the University of Peradeniya, Master of Business Administration from University of Colombo and Postgraduate Diploma in Management from University of Sri Jayewardenepura. He is a Fellow Member of the Institute of Bankers of Sri Lanka.

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

EXECUTIVE MANAGEMENT



Front row left to right: Mrs H L S S Senanayake, Mr K D Karunatilake, Mr A S M V Kumarasiri, Mr T D De Z Gunawardena, Mrs P R Madurawala

Middle row left to right: Mrs D M D Dasanayake, Mr W A L P Jayarathne, Mr W A Wasantha Kumara, Mr K A Nihal, Mr A U L A Anzar

Back row left to right: Mrs P C K Gamage, Mr A Jayaasith, Mr T G S P Kumarasiri, Mrs W G P Senanayake, Mr P M Ariyawanse, Mrs N A C W K Nissanka

EXECUTIVE MANAGEMENT



Front row left to right: Mrs N C Mudalige, Mrs U S Gerty, Mr S N B M W Narayana, Mrs R P Nilmini Premalal, Mrs M B A K B Mudduwa
Middle row left to right: Mr K B N Seelanatha, Mrs G S Galappaththi, Mr T M W Chandrakumara, Mrs W D A B Liyanagunawardena, Mrs K S R S Loku Kaluge
Back row left to right: Mr E A M Dissanayake, Mrs T Hewawasam, Mrs D R Beneragama, Mr R Ravikaran, Mr N H Wijayawardana

CHIEF MANAGERS

Mr M M A Rizmi

Regional Manager – Galle R.H.O.

Mr H D Gunarathna

Regional Manager – Ampara R.H.O.

Mr D M Kapila

Regional Manager – Nuwara-Eliya R.H.O.

Mr N K Wimalasiri

Regional Manager – Colombo South R.H.O.

Ms V Kanakasabei

Regional Manager – Wannu R.H.O.

Mr P A P R S Perera

Regional Manager – Monaragala R.H.O.

Mr R I J Peiris

Regional Manager – Colombo Outer R.H.O.

Mr S L M A S Samarathunga

Regional Manager – Colombo North R.H.O.

Mrs I Ratnayake

Regional Manager – Polonnaruwa R.H.O.

Mr P G A C Perera

Regional Manager – Kalutara R.H.O.

Mr M H M Rizan

Regional Manager – Batticaloa R.H.O.

Mr D M M Dissanayaka

Regional Manager – Badulla R.H.O.

Mr B S Ranatungage

Regional Manager – Kandy R.H.O.

Mr H M U H Herath

Regional Manager – Trincomalee R.H.O.

Mr G R S Kodagoda

Regional Manager – Kurunegala R.H.O.

Mrs A M V D L Adikari

Regional Manager – Matale R.H.O.

Mr M S Kanakkahewage

Regional Manager – Hambantota R.H.O.

Mr N D Pathiranga

Regional Manager – Gampaha R.H.O.

Mr I K Indika

Regional Manager – Matara R.H.O.

Mr K Kodeeswaran

Regional Manager – Jaffna R.H.O.

Mr W N T Perera

Regional Manager – Ratnapura R.H.O.

Mr D M D Dissanayaka

Regional Manager – Anuradhapura R.H.O.

Ms L N A N K Nissanka

Regional Manager – Kegalle R.H.O.

Mr K K N Priyantha

Chief Manager – Investigation and Inquiries

Mr W M T Rohan

Chief Manager – Recoveries

Mr G H U S Gunaratne

Chief Manager – Human Resources

Mr H D S V Gunaratne

Chief Manager – Supplies

Mr A S K Gangabadage

Chief Manager – Supplies Department

Mr E P A Sisira Kumara

Chief Manager – Internal Audit

Mr E M G Karunarathna

Chief Manager – International Banking Division

Mrs H M P S K Herath

Chief Manager – Finance and Management Accounting Department

Mrs W A L Weerasooriya

Chief Manager – Risk Management and Credit Control Department

Mrs A B D M Crishanthi

Chief Manager – Retail Banking Department

Mrs K Subasinghe

Chief Manager – International Banking Division

Ms V P Abeyratne

Chief Manager – Digitalisation Department

Mr K G P M Kariyawasam

Chief Manager – Digitalisation Department

Mrs N A V Munasinghe

Chief Manager – Branch Credit Department

Mr M S C P T Marasinghe

Chief Manager – People's Card Centre

Mrs S S Perera

Chief Manager – Corporate Banking Division

Mrs A G Jayasena

Chief Manager – Risk Management and Credit Control Department

Ms R Arunasalam

Chief Manager – Overseas Customer Services

Mrs W D Piyaseeli

Chief Manager – Credit Review

Mr L U L K Alwis

Chief Manager – Process Management

Mr O K D R Wasantha

Chief Manager – Internal Audit

Mr N Sriskantha

Chief Manager – Internal Audit

Mr I K G C K B Ihalakorala

Chief Manager – Retail Banking

Mrs H M L Pushpakumari

Senior Law Officer – Colombo North R.H.O.

Mrs S D N Premadasa

Senior Law Officer – International Banking Division

Mrs Y K Athauda

Senior Law Officer – Land Redemption Department

Mrs P R K N Fernando

Senior Law Officer – Colombo Outer R.H.O.

Mrs S M D Kumari

Senior Law Officer – Anuradhapura R.H.O.

Mrs T N Rubasingha

Senior Law Officer – Matara R.H.O.

Mr H C K Gunawardena

Maintenance Engineer

Mr Y K Rajapakse

Chief Manager – Engineering Services

Mr K A A S Peiris

Acting Regional Manager – Puttalam R.H.O.



POSITIONED FOR VALUE CREATION

A comprehensive discussion of the operating context and the Bank's value creation process guided by its Vision, Mission, Values, and the Strategy. The section outlines the materiality identification process contributed by the stakeholder engagement process, the strategic direction and commitment to sustainability.

- 40 / Our Value Creation Model**
- 44 / Operating Environment**
- 49 / Stakeholder Engagement**
- 52 / Materiality**
- 57 / Our Strategic Plan**



OUR VALUE CREATION MODEL

BUILDING A RESILIENT AND AGILE BANK

Our value creation model shows how we use our resources, skills and interactions to create value for our shareholders. This is imperative as our long-term success and sustainability depends on how we create and deliver value to our stakeholders. Through our business activities, inputs such as financial, human, manufactured, intellectual, and social and relationship, community, and natural capitals are transformed into outputs.

OPERATING ENVIRONMENT

VISION

INPUT



FINANCIAL CAPITAL

- Equity capital
- Customer deposits
- Borrowings
- Liquidity management
- Capital management
- Dividend Policy
- Shareholder engagement
- Market capitalisation



MANUFACTURED CAPITAL

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



INTELLECTUAL CAPITAL

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



HUMAN CAPITAL

- Diversified workforce of 7,692 employees
- Skills and competencies
- Performance driven culture
- Performance based reward structure
- Loyalty and commitment
- Recruitment policy
- Training and development
- Employee grievance policy



SOCIAL AND RELATIONSHIP CAPITAL

Customers

- Over 14 million customers
- Strong customer relationships
- Customer-centric culture
- Digital banking channels
- Comprehensive solutions
- Customer grievance handling mechanism

Business partner

- 242 suppliers
- Long-standing business partner relationships
- Transparent procurement policy

Community

- LKR 28.7 Mn. invested on CSR
- Promoting UN Sustainable Development Goals (SDG's)
- Socially responsible lending
- Community based development lending



NATURAL CAPITAL

- "People's Green Pulse" environmental policy
- Carbon conscious certification
- Water management initiatives
- Energy management initiatives

GOVERNANCE FRAMEWORK

ACTIVITIES

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

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

STRATEGIC PILLARS

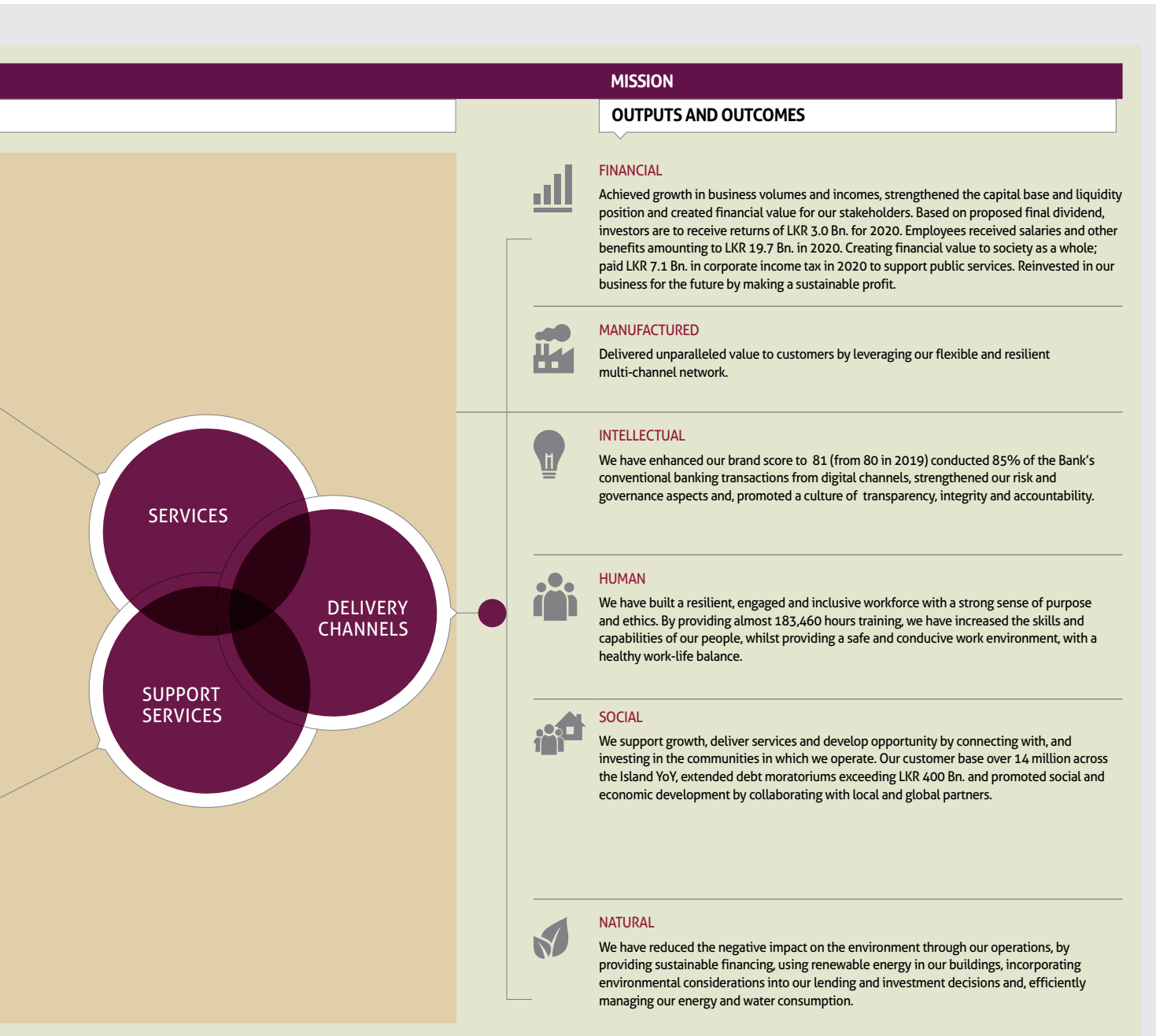


1 Innovation



2 Growth and resilience

OUR VALUE CREATION MODEL



3 Operational excellence



4 Ethical behaviour

SCOREBOARD OF OUR CAPITALS



Financial capital

Indicator	Increase/(decrease) in value	Value derived as at 1 January 2020	Value derived as at 31 December 2020
Operating profit (LKR Mn.)	(7,851.5)	37,168.9	29,317.4
Shareholders' funds (LKR Mn.)	9,095.1	130,015.7	139,110.8
Deposits from customers (LKR Mn.)	346,290.9 →	1,588,903.1 →	1,935,194.0
Total liabilities (LKR Mn.)	341,697.6	1,919,759.0	2,261,456.6
Earnings per share (LKR)	245	14,985	15,230



Manufactured capital

Indicator	Increase/(decrease) in value	Value derived as at 1 January 2020	Value derived as at 31 December 2020
Investment property, plant and equipment (LKR Mn.)	(1,276.4)	2,560.8	1,284.4
Number of SBUs	5	239	244
Number of ATMs	10 →	755 →	765
Number of branches	2	739	741
Number of CDMS	4	270	274



Intellectual capital

Indicator	Increase/(decrease) in value	Value derived as at 1 January 2020	Value derived as at 31 December 2020
Brand equity	(0.5)	4.1	3.6
Brand rating		AAA-	AAA-
Customer satisfaction ratio (%)	(2.0)	94	92
Credit rating from Fitch Lanka Rating Ltd.	→	AA+	AA-
Number of digital deposit customers (Mn.)	0.5	0.6	1.1
Number of People's Wave mobile app downloads (Monthly average)	5,000	25,000	30,000



Human capital

Indicator	Increase/(decrease) in value	Value derived as at 1 January 2020	Value derived as at 31 December 2020
Number of employees	(144)	7,836	7,692
Number of new recruitments	8	-	8
Investment on training and development (LKR Mn.)	(72)	104	32
Number of hours of training per employee	(9) →	22 →	13
Profit per employee (LKR '000)	193	1,650	1,843
Revenue per employee (LKR '000)	(660)	25,489	24,829
Number of employees with over 20 years service	(481)	2,188	1,707



Social and relationship capital

Indicator	Increase/(decrease) in value	Value derived as at 1 January 2020	Value derived as at 31 December 2020
Number of correspondent banks	(2)	42	40
Number of suppliers	-	242	242
Number of Vostro agents	- →	71 →	71
Community Based Development Loans (LKR Mn.)	15,115	7,852	22,967
Investment on CSR (LKR Mn.)	(7)	36	29
Number of mobile and internet banking customers	182,414	1,440,493	1,622,907



Natural capital

Indicator	Increase/(decrease) in value	Value derived as at 1 January 2020	Value derived as at 31 December 2020
Energy intensity per employee (GJ)	0.2	9.3	9.5
Weight of paper recycled (Kg)	(28,486) →	36,117 →	7,631
Consumption of renewable energy (Gj)	(262.7)	6,499.3	6,236.6
Consumption of non-renewable energy (Gj)	(78.5)	5,888.0	5,979.2

OPERATING ENVIRONMENT

Our macroeconomic operating context

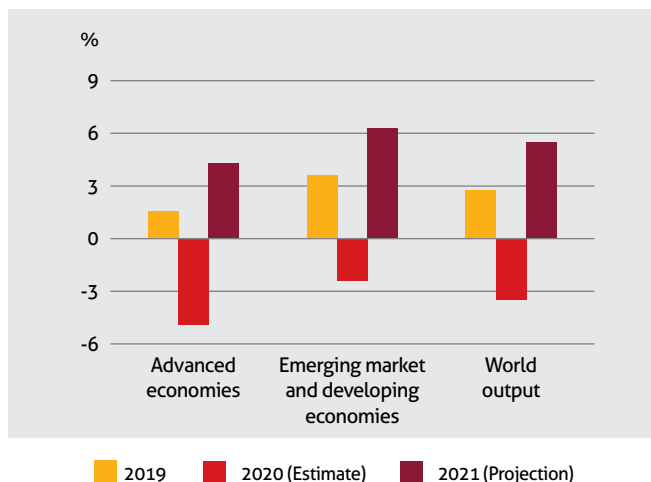
The outbreak of COVID-19 pandemic has fundamentally changed the external environment in which we operate. Its implications on economies extend far beyond the health related concerns, testing the resilience of the financial sector.

The global economic growth impacted by the pandemic

	2021 (Projection)	2020 (Estimate)	2019
World output	5.5	-3.5	2.8
Advanced economies	4.3	-4.9	1.6
United States	5.2	-3.4	2.2
Euro Area	4.2	-7.2	1.3
Japan	3.1	-5.1	0.3
United Kingdom	4.5	-10.0	1.4
Emerging market and developing economies	6.3	-2.4	3.6
Russia	3.0	-3.6	1.3
China	8.1	2.3	6.0
India	11.5	-8.0	4.2
ASEAN	5.2	-3.7	4.9

Source: World Economic Outlook – January 2021

GLOBAL ECONOMIC GROWTH



Source: World Economic Outlook – January 2021

The COVID-19 pandemic has led to a deep global recession as severe as the two World Wars and the Great Depression over the past century and a half. Since the outbreak of the pandemic, over

one million lives have been lost, whilst many have suffered serious illness and approximately 90 million people are expected to fall into extreme deprivation in 2020. The governments across the world have taken various measures to retain employees. However, the International Labour Organization (ILO) estimates, the working hour losses to be equivalent to a loss of 345 million full time workers. With the partial easing of stringent lockdowns in mid-2020, there has been a resurgence of economic activity. However, the reimposition of containment measure in the second half of 2020, as the virus continued to spread, has slowed down the pace of global economic recovery. The International Monetary Fund (IMF) estimates global economic growth to have contracted by 3.5% in 2020. However, with the approval of multiple vaccines and the launch of vaccination in certain countries in December 2020, there are raised hopes of an eventual end to the pandemic. However, the global recovery is likely to be long, uneven, and uncertain.

Divergent global economic recovery

The global economy is projected to grow by 5.5% in 2021 and moderate to 4.2% in 2022. The local transmission of the virus is expected to be brought down to low levels by end 2022, with the increased vaccine availability, improved therapies, testing, and tracing.

Consistent with global economic recovery, global trade volumes are projected to grow by 8.0% in 2021. Services trade is expected to recover at a slower pace, which is consistent with subdued cross-border tourism and business travel until transmission declines across the globe. Inflation is expected to remain subdued during 2021/22, with advanced economies projected to remain at 1.5% and emerging market and developing economies at just over 4.0%, which is lower than the historical average of the Group.

Reflecting the strong policy support and the anticipated widespread availability of vaccines in summer 2021, the output loss of advanced economies is projected to be relatively smaller compared with the pre-COVID forecast. Reflecting the wide divergence in recovery, USA and Japan are projected to regain end-2019 activity levels in the second half of 2021, while in the Euro Area and the United Kingdom is expected to remain below end-2019 levels into 2022. The resurgence of economic activity among advanced economies is expected to have favourable spillovers to trading partners.

Emerging market and developing economies (EMDE) too are projected to trace diverging recovery paths, with considerable differentiation between China and other EMDE nations. Effective containment measures, a forceful public investment response, and central bank liquidity support have facilitated a strong recovery in China. The outlook for oil exporters and tourism-based economies within the group are subdued due to the expected slow normalisation of cross-border travel and the subdued demand for oil prices. The pandemic is expected to reverse the progress made in poverty reduction across the

OPERATING ENVIRONMENT

past two decades, with close to 90 million people likely to fall below the extreme poverty threshold during 2020/21. India is projected to grow by 2.7% for 2021, reflecting carryover from a stronger-than-expected recovery in 2020 after lockdowns were eased.

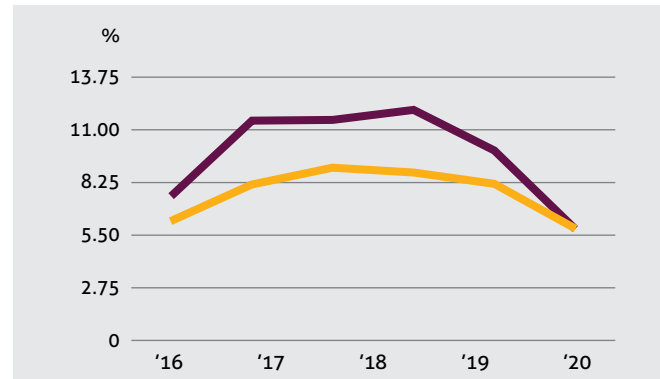
Sri Lankan economy affected by renewed challenges

Having recorded below potential economic performance in the recent years, the Sri Lankan economy, encountered renewed challenges with the outbreak of the COVID-19 pandemic. The negative developments in the global economy transmitted to the domestic economy through declining tourism earnings and export earnings while recording foreign cash outflows from financial markets. Segments of the population, especially those in informal sectors and Micro, Small and Medium-sized Enterprises (MSMEs), faced unprecedented difficulties following the pandemic.

Driven by disruptions during the mobility restrictions in the April-May period, Sri Lanka experienced the largest economic contraction of -16.3%, in Q2 of 2020. With inflation at a subdued level, the Central Bank of Sri Lanka (CBSL) took unprecedented measures to revive the ailing economy. These measures, together with stimulus programmes initiated by the Government, led to an economic recovery, which was better than anticipated in Q3 of 2020. Accordingly, agriculture and manufacturing activities and many of the service activities reported positive growth rates when compared to the Q3 in the year 2019. Although the momentum of economic recovery was disturbed to a certain extent by the outbreak of the second wave of COVID-19, during the final quarter of the year, the 1.3% recovery in Q4 was stronger than expected. The CBSL estimates the Sri Lankan economy to have contracted by 3.9% in 2020.

In order to expedite the monetary policy transmission process, the CBSL reduced the policy interest rates and the Statutory Reserve Ratio (SRR) to their lowest levels in history. The substantial monetary easing measures resulted in a significant decline in market interest rates, with most benchmark interest rates reaching historically low levels.

AWPLR AND AWDR

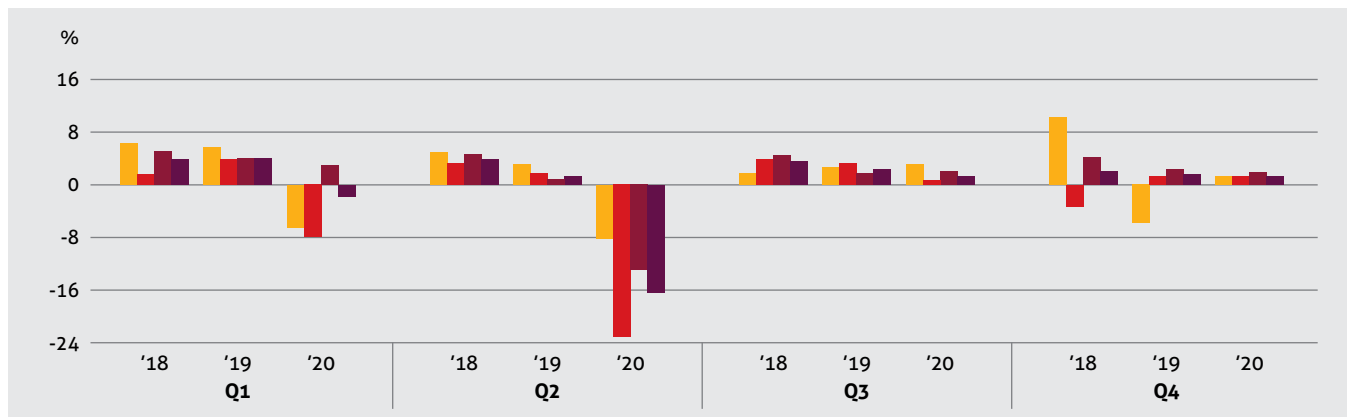


— Average Weighted Prime Lending Rate (AWPLR) – Weekly
— Average Weighted Deposit Rate (AWDR)

Source: Central Bank of Sri Lanka

The external sector marked a notable rebound from mid-2020, on account of the proactive measures introduced by the Government. These included restriction of non-essential merchandise imports and outward investment, lower global petroleum prices and larger than expected remittances from migrant workers which helped contain the pressure on the exchange rate and challenges in the external sector. The trade deficit contracted significantly with the reduction in merchandise imports in 2020, contributing to strengthening the external current account balance.

COMPARISON OF QUARTERLY GROWTH RATES

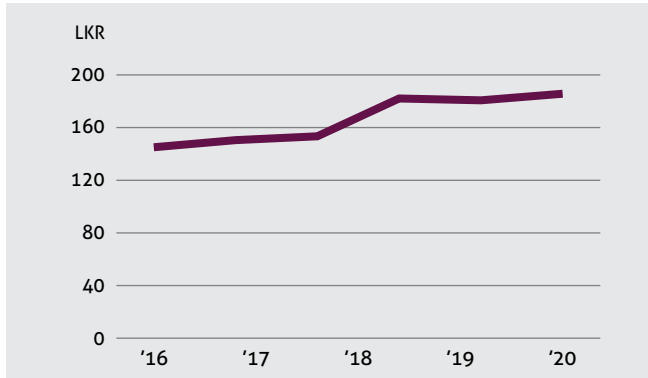


■ Agriculture, fisheries and forestry ■ Industry ■ Services ■ GDP

Source: Central Bank of Sri Lanka

OPERATING ENVIRONMENT

EXCHANGE RATE (LKR PER USD)



Source: Central Bank of Sri Lanka

During 2020, headline inflation remained muted, despite some acceleration in food inflation. Under the current flexible inflation targeting framework, the Colombo Consumer Price Index (CCPI) based headline inflation remained broadly within 4-6% range over the year. Highlighting low levels of demand-driven inflationary pressures, core inflation remained subdued throughout 2020.

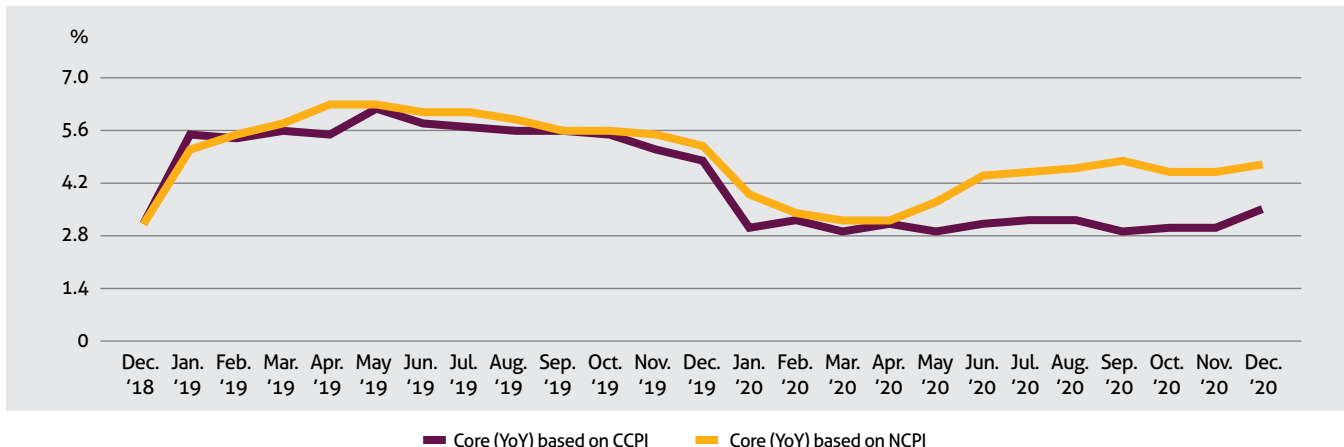
Envisaged recovery of the Sri Lankan economy

Through monetary and fiscal interventions, the CBSL will continue to provide adequate impetus to the economy, amidst the challenging domestic and global macroeconomic conditions in 2021. Accordingly, the CBSL will continue the prevailing accommodative monetary policy stance in the ensuing year, to ensure the envisaged recovery of economic activity.

Inflation is expected to remain within the targeted range of 4-6% over the medium term. However, inflation risks could emanate from exogenous factors such as increases in global petroleum prices and the possible improvement in global demand and pressures that could emanate from domestic supply-side factors. The CBSL intends to establish a permanent single digit interest rate structure in the economy by capitalising on the achievement of 12-years of single-digit inflation. Market interest rates will be maintained at single digit levels, which is imperative to promote investment and entrepreneurship in the Nation.

To support the economically vulnerable groups in a low inflation, low-interest rate environment, the Government has proposed to introduce social safety net schemes, including a contributory pension scheme to assist those in public enterprises, as well as the private sector. To support the envisaged growth of the economy, credit to the private sector is expected to expand by around 14.0% in 2021 and by about 12.0 -12.5% annually over the medium term. The Government has further provided policy support to improve domestic production, particularly in agriculture and industry sectors, under its policy framework outlined in the "Vistas of Prosperity and Splendour" and the Budget 2021.

INFLATION



Core (YoY) based on CCPI | Core (YoY) based on NCPI

Source: Central Bank of Sri Lanka

OPERATING ENVIRONMENT

The CBSL will continue to allow market forces to determine the exchange rate. However, any excessive volatility in the exchange rate due to speculative moves would be strictly monitored and corrective action taken for the greater good of the overall economy.

A stable banking sector

At the onset of the pandemic, the banking sector was well poised in terms of capital and liquidity buffers, due to stringent regulatory requirements. A deterioration in credit quality was observed following the pandemic, despite the moratorium being in effect, during the nine months ending September 2020.

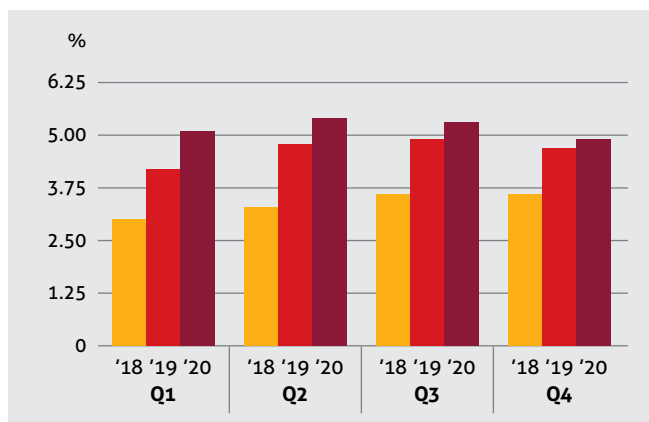
Credit growth was mainly driven by an increase in loans and advances to the government and State-Owned Enterprises (SOEs). There was a high concentration of credit to six sectors with 73.1% of the loans concentrated into consumption, construction, trade, manufacturing, infrastructure, and agriculture at end September 2020.

The overall NPL ratio of the banking sector reached 5.3% in September 2020, with the manufacturing sector reporting the highest NPL ratio of 9.0%, followed by agriculture (7.3%), trade (7.3%), tourism (7.1%), construction (6.7%), and consumption (5.2%) at end September 2020. The increase in rescheduled loans within the banking sector, further deteriorated the asset quality of the banking sector. The specific provision coverage ratio increased from 38.2% as at end September 2019 to 45.9% by end September 2020.

The banking sector exhibited a higher resilience against liquidity risk as a result of the unprecedented easing of monetary policy, regulatory forbearances and low demand for loans. Rupee deposit, which continued to be a major source of funding for the banking sector, recorded a notable growth of 19.3% in September 2020, compared to 7.7% in September 2019. Foreign Currency (FC) deposits recorded a marginal increase from 14% to 14.3% from September 2019 to September 2020. The credit to deposit ratio declined to 84.8% in September 2020 from 88.2% in December 2019 reflecting the easing of credit growth relative to deposits growth. The cumulative maturity gap as a percentage of the cumulative liabilities, for maturity buckets up to six months marginally widened indicating the unhealthy maturity profile of assets and liabilities in the short term. The NPL ratio of the banking sector improved to 4.3% at end December 2020.

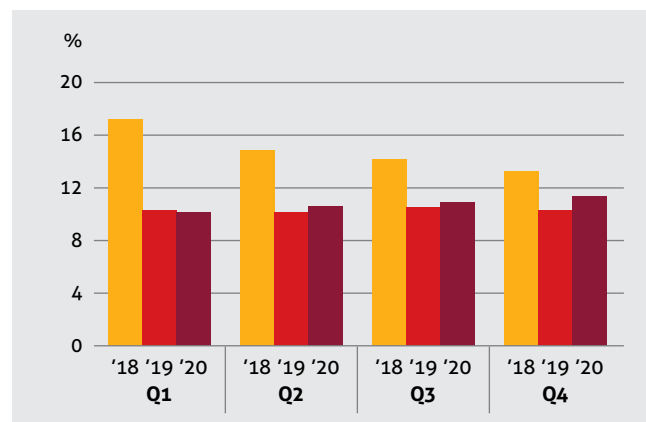
Due to the prevailing low interest rate scenario and the subdued demand for loans, net profits for the nine months period increased to LKR 94.8 Bn. in September 2020 from LKR 82.6 Bn. in the corresponding period in 2019. Reflecting the policy measures taken by the CBSL, the net interest margin (NIM) of the sector declined to 3.1% of the average assets for the nine months ending September 2020. Return on assets (ROA) of the sector increased marginally from 0.93% to 0.97% YoY in September 2020, whilst return on equity (ROE) increased from 10.5% to 10.9% YoY for the same period. As at end December 2020 both ROA and ROE had improved to 1.0% and 11.3% respectively.

NON-PERFORMING LOANS TO TOTAL LOANS AND ADVANCES



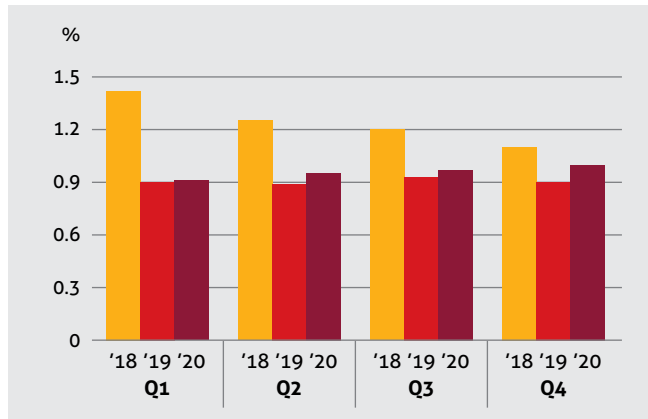
Source: Central Bank of Sri Lanka

ROE – AFTER TAX



OPERATING ENVIRONMENT

ROA – AFTER TAX



Source: Central Bank of Sri Lanka

Despite the challenging macroeconomic environment, all banks complied with the minimum Capital Adequacy Ratio (CAR) and CAR of the banking sector remained well above the regulatory minimum. The CAR and Tier I capital ratio of the banking sector stood at 16.5% and 13.0%, respectively at the end of December 2020.

Strengthening the resilience and structure of the banking sector

Several payment products were implemented using the Common Electronic Funds Transfer Switch (CEFTS), for routing and clearing of transactions. CEFTS provides a common infrastructure to clear payments effected through payment channels such as ATMs, Internet Banking, Mobile Banking, Kiosks and over-the-counter.

"LANKAQR," the National Quick Response (QR) Code specification branded was issued to provide a low cost payment option and facilitate interoperability of different payment mechanisms and instruments. The CBSL, designated the year 2020 as the Year of Digital Transactions, considering the economic benefits of using digital payment mechanisms by the general public. Many promotional activities were conducted to increase awareness and encourage the general public to use digital payment mechanisms.

The National Payments Council (NPC); the Consultative And Monitoring Committee on payment systems of the banking industry, finalised its Road Map for 2020-2022. This includes areas such as, expanding interbank payment infrastructure, promoting ePayments, standardisation and interoperability, innovations for payment systems, strengthening payment system security and public awareness.

The Working Committee for Blockchain Technology studied the possibility of using Blockchain Technology to improve the safety and efficiency of financial services. The Committee recommended to

initially facilitating a shared know-your-customer (KYC) solution based on Blockchain Technology.

The CBSL established the Financial Consumer Relations Department (FCRD) in August 2020 under the provisions of Section 33 of the Monetary Law Act No. 58 of 1949 (MLA), to streamline handling of issues pertaining to financial consumer related concerns. FCRD will be serving as a single point of contact to receive and disseminate all external complaints and grievances directed to the Central Bank.

Significant progress was made towards introducing a new Banking Act by repealing the existing Banking Act No. 30 of 1988. The aim is to create a stronger legal foundation for supervision of banking system of the country.

A stronger banking sector

In order to strengthen the resilience of the banking sector, the CBSL is updating the supervisory rating model (Bank Sustainability Rating Indicator-BSRI) to strengthen the risk based supervision framework for banks to enhance efficiency, effectiveness, and sustainability of individual banks.

In order to protect banks from contagion risk, and to ensure the stability and the soundness of the banking sector and the financial system, the CBSL will conduct consolidated supervision of banking groups. Accordingly, a regulatory framework on consolidated supervision will be formulated and the relevant provisions will be brought into the Banking Act.

Large commercial banks will be encouraged to seek avenues of regional expansion and information sharing among regulators and cross-border supervision will be enhanced further. Changes to the existing regulatory and supervisory framework will be introduced, to enhance the cybersecurity of banks in line with international standards and best practices. This will further strengthen the information security and technology resilience capabilities of banks.

The conventional business models of banks are likely to undergo significant changes in the medium to long term. This is due to FinTech driven highly efficient alternative banking products and services as well as challenges posed by the COVID-19 pandemic. The crisis preparedness and resilience of banks to face adverse scenarios will be further strengthened through the implementation of recovery plans for licensed banks. The stability of the banking sector will be maintained to support economic activities of the country through expected improvements in risk management and corporate governance and enhanced supervision and monitoring. The crisis preparedness and resilience of banks will be further strengthened through the implementation of recovery plans for licensed banks in order to face adverse scenarios.

STAKEHOLDER ENGAGEMENT

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

Our stakeholders are the individuals, groups, and organisations that significantly affect or could be significantly affected by our strategy execution and business operations. We regularly engage with our stakeholders as they provide us with essential resources that enable us to generate competitive sustainable value in the short, medium, and long term. The feedback received helps to improve our products, customer service, processes and management and also maintain social, environmental, and ethical standards.

Key stakeholders

Our key stakeholders are determined based on the level of engagement, their impact on our business and involvement in the decision-making process.



Regular dialogue with our stakeholders help us to have a clear understanding of our stakeholders' expectations and about the value we can create in our diverse roles as a bank, employer, investor, and responsible corporate citizen.

STAKEHOLDER ENGAGEMENT

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

	Investors	Customers	Employees/Trade unions																																										
Who they are	Shareholders both the Government and other	Retail and SME customers Corporate and Institutional Banking clients Public sector clients Brokers and intermediaries	All full-time and part-time employees																																										
Why they matter to us	To have continued access to capital for the long-term performance of our business.	Improving customer experience is essential to differentiate ourselves from the competition and achieve business success. We enhance product performance and value through collaboration and innovation with our customers.	A team of dedicated and motivated employees supports the vision of the Bank. By delivering to the expectations of our people, we support their well-being and enable them to make the right business decisions and retain and develop the best talent.																																										
Key concerns/ expectations	<ul style="list-style-type: none"> Consistent economic performance Ethical conduct, environmental, and social governance Sustainable growth Transparency Business continuity Brand reputation and image Organisational resilience Cost optimisation Asset quality 	<ul style="list-style-type: none"> Research and innovation Quality of service Relationship management Compliance Affordably of services Convenience and accessibility Financial stability of the Bank Speedy complaint resolution Health and safety Stable ratings Privacy 	<ul style="list-style-type: none"> Health and safety Transparent, fair, and attractive remuneration Employee development Employee engagement Talent pipeline and retention Career opportunities Diversity and inclusion Business continuity Recognition and achievement 																																										
Channels of engagement and frequency	<table border="1"> <thead> <tr> <th>Frequency</th> <th>Mode of engagement</th> </tr> </thead> <tbody> <tr> <td>Annually</td> <td>Annual report</td> </tr> <tr> <td>Quarterly</td> <td>Quarterly financial statements</td> </tr> <tr> <td>Continuous</td> <td>Corporate website</td> </tr> <tr> <td>Ongoing</td> <td>Phone calls, email, written communication</td> </tr> </tbody> </table>	Frequency	Mode of engagement	Annually	Annual report	Quarterly	Quarterly financial statements	Continuous	Corporate website	Ongoing	Phone calls, email, written communication	<table border="1"> <thead> <tr> <th>Frequency</th> <th>Mode of engagement</th> </tr> </thead> <tbody> <tr> <td>Ongoing</td> <td>Customer satisfaction surveys</td> </tr> <tr> <td>Ongoing</td> <td>Customer networking</td> </tr> <tr> <td>Ongoing</td> <td>Corporate website</td> </tr> <tr> <td>Ongoing</td> <td>Relationship management</td> </tr> <tr> <td>Ongoing</td> <td>Financial literacy programmes</td> </tr> <tr> <td>Ongoing</td> <td>Customer hotline</td> </tr> <tr> <td>Ongoing</td> <td>Social media</td> </tr> </tbody> </table>	Frequency	Mode of engagement	Ongoing	Customer satisfaction surveys	Ongoing	Customer networking	Ongoing	Corporate website	Ongoing	Relationship management	Ongoing	Financial literacy programmes	Ongoing	Customer hotline	Ongoing	Social media	<table border="1"> <thead> <tr> <th>Frequency</th> <th>Mode of engagement</th> </tr> </thead> <tbody> <tr> <td>Annually</td> <td>Performance appraisal</td> </tr> <tr> <td>Ongoing</td> <td>Collective bargaining</td> </tr> <tr> <td>Ongoing</td> <td>Muti-level staff meetings</td> </tr> <tr> <td>Ongoing</td> <td>Staff orientation</td> </tr> <tr> <td>Ongoing</td> <td>Training programmes</td> </tr> <tr> <td>Ongoing</td> <td>Group intranet, email</td> </tr> <tr> <td>Quarterly</td> <td>Pulse magazine</td> </tr> </tbody> </table>	Frequency	Mode of engagement	Annually	Performance appraisal	Ongoing	Collective bargaining	Ongoing	Muti-level staff meetings	Ongoing	Staff orientation	Ongoing	Training programmes	Ongoing	Group intranet, email	Quarterly	Pulse magazine
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Our strategic response	<p>We work with our investors, to deliver robust returns and long-term sustainable value whilst keeping them apprised of our progress and challenges in a timely and transparent manner.</p> <p><i>The entire annual report provides information necessary for a comprehensive assessment of our progress.</i></p>	<p>We provide cutting-edge products with speed and convenience to our customers through our Self-Banking Units and digital channels. We work towards innovating our processes to provide an excellent customer experience.</p> <p><i>Customer capital on pages 98 to 105.</i></p>	<p>We provide a safe and motivating working environment that support personal and professional development through fair remuneration and talent development.</p> <p><i>Human capital on pages 83 to 96.</i></p>																																										

STAKEHOLDER ENGAGEMENT

	Regulators/Legislators	Suppliers	Communities and environment																															
Who they are	Governments and regulators Other non-governmental organisations	Suppliers Business partners	Local communities																															
Why they matter to us	We engage with regulators and legislators to ensure ethical operations, attract funding, enable markets, and achieve sustainability.	Our external supply chain and our suppliers are vital to our performance.	We are committed to building positive relationships with the communities in which we operate and safeguarding the environment.																															
Key concerns/expectations	<ul style="list-style-type: none"> • Governance and transparency • Risk management • Industry support for policies • Microfinance and SME development • Research and innovation • Sustainability performance • Regulatory compliance 	<ul style="list-style-type: none"> • Maintaining strong relationships • Building capability and expertise • Responsible procurement, trust, and ethics • Operational improvement • Technological advances, including digital solutions • Quality of service • New business opportunities • Fair price 	<ul style="list-style-type: none"> • Future talent pipeline • Local operational impact • Health, safety, and environment performance • Responsible financing • Commitment to community development • Guidance on financial management and business • Climate change • Financial literacy • Responsible sourcing 																															
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Ongoing	Public events																																	
Ongoing	Social media																																	
Our strategic response	<p>We maintain good working relationships with governmental authorities through ongoing dialogue, timely submission of relevant information and meeting regulatory requirements.</p> <p><i>Value creation on pages 40 and 41.</i></p>	<p>We build trusting relationships from which we can mutually benefit and ensure reliable and sustainable supply chains.</p> <p><i>Business partner capital on pages 106 to 109.</i></p>	<p>We strengthen economic development, enhance social sustainability and ensure environmental protection within our communities.</p> <p><i>Community capital on pages 114 to 120 and environmental capital on pages 121 to 125.</i></p>																															

MATERIALITY

The materiality assessment process is a vital element in embedding integrated thinking at our Bank which helps to ensure long-term sustainability of our business and stakeholder value creation. Our ability to create value is impacted by a multitude of factors including the operating context, our responses to the risks and opportunities and implementation of our strategy. This section provides the context for determining material matters – those that have influenced, or could influence, our ability to create value over the short, medium and long term.

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

The material topics are presented in relevance to our four strategic themes, encompassing all capitals for preparing this Report and in alignment with relevant SDGs. A new material theme was added during the year.

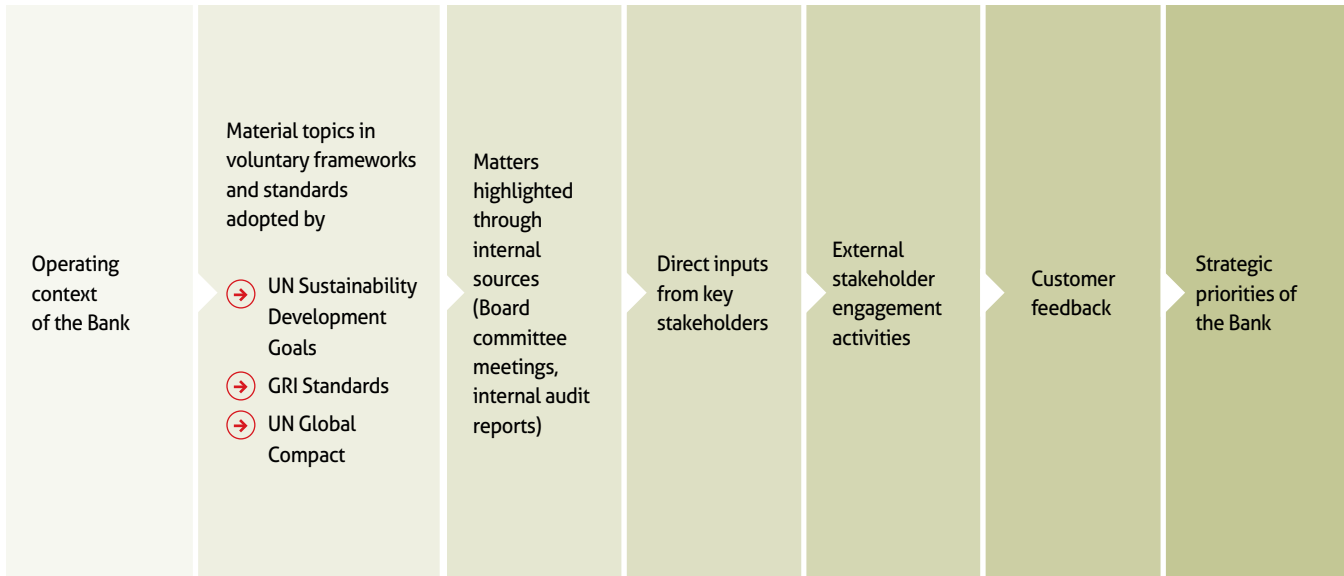
Our approach to create shared value

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

The process of monitoring and review enables us to create value for our stakeholders while achieving our strategic objectives.

Materiality assessment process

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







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










MATERIALITY

In defining report content, we sought to prioritise the material impacts based on their relative importance to internal and external stakeholders. This prioritisation and identification of material topics for reporting is shown below.













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

No.	Material GRI topic GRI 102-47	GRI standard No.	Reason for materiality GRI 103-1	Capital management/ strategic theme	Management approach GRI 103-2	Evaluation of the management approach GRI 103-3	Relevance to People's Bank	Materiality to stakeholders and topic boundry GRI 102-46					
								Internal			External		
								Employees	Customers	Shareholders	Suppliers	Community	Environment
1.	Financial performance	GRI 201	A strong financial performance strengthens the stability, resilience, and growth capacity of the Bank whilst improving the brand equity		Increase revenue from all business lines by leveraging on market opportunities and effective cost management to improve the bottomline. Managing risks strategically, reinforcing capital position and strengthening Bank's balance sheet.	Financial Capital (page 65) Performance of Business Units (pages 127 to 138) Risk Management Report (page 142)	✓	✓	✓	✓	✓	✓	✓
2.	Customer experience		Customer experience is crucial to secure a captive market share and strengthen the sustainability of the Bank		Deliver a compelling value proposition to customers by adopting a customer centric approach and facilitating seamless transition to digital banking channels that offer a high customer experience	Manufactured Capital (page 70) Intellectual Capital (page 76) Social and Relationship Capital – Customer (page 98)	✓		✓				
3.	Operational efficiency		Essential to realise better outcomes for all stakeholders of the Bank		Enhance the efficiency of all key operations of the Bank mainly through automation to generate increased value for stakeholders.	Manufactured Capital (page 70) Intellectual Capital (page 76) Social and Relationship Capital Customer (page 98) and Supplier (page 106) Human Capital (page 83) Natural Capital (page 121)	✓	✓	✓	✓			
4.	Employee productivity		Improved employee productivity is essential to drive the Bank's strategic agenda and performance		Invest in employee training and development and nurture a highly engaged team of employees	Human Capital (page 83)	✓	✓					



MATERIALITY

No.	Material GRI topic GRI 102-47	GRI standard No.	Reason for materiality GRI 103-1	Capital management/ strategic theme	Management approach GRI 103-2	Evaluation of the management approach GRI 103-3	Relevance to People's Bank	Materiality to stakeholders and topic boundary GRI 102-46					
								Internal			External		
								Employees	Customers	Shareholders	Suppliers	Community	Environment
5.	Digital leadership		Achieve a competitive edge, deliver exceptional customer outcomes resulting in enhanced brand equity and a strong market position		Continuous and ongoing investment in digitalisation to maintain our position as the most digitalised and technologically advanced Bank in the Nation and deliver increased value to our economy and all our stakeholders	Manufactured Capital (page 70) Intellectual Capital (page 76) Social and Relationship Capital-Customer (page 98)	✓	✓	✓				✓
6.	Risk and governance		Enhance the integrity, trust, and stability of the Bank		Risk Management and Corporate Governance/ Strengthen the sustainability of the Bank by adopting a proactive approach to risk management following sound governance practices	Risk management report (page 142) Corporate governance report (page 173)	✓	✓	✓	✓	✓	✓	✓
7.	Compliance	GRI 416, 417, 418	Elevate Bank's reputation and strengthen brand equity		Corporate Governance/ Ensure full compliance with all applicable laws and regulations by maintaining strong governance and oversight framework	Social and Relationship Capital – Customer (page 98)	✓	✓	✓	✓	✓	✓	✓
8.	Talent management	GRI 410, 402, 403, 404, 405	A team of highly-engaged, motivated, and committed team of employees deliver a responsible and ethical service	 	Recruit, retain, and develop a high performing team of employees to implement the Bank's strategic agenda	Human Capital (page 83)	✓	✓					
9.	Responsible lending		Secure a sustainable future by promoting best practices across the business activities	 	Promote financial inclusion and uplift the standard of living of communities.	Social and Relationship Capital - Customer (page 98)	✓		✓	✓		✓	✓
10.	Anti-corruption	GRI 205	Contribute towards an ethical society through compliance		Corporate Governance/ Nurture a stringent, ethical and compliant culture within our Bank to support our people to be at their best, conducting themselves with integrity adhering to highest standards.	Human Capital (page 83)	✓	✓	✓	✓	✓	✓	
11.	Socio-economic impacts	GRI 202, 203, 413	Align with national priority issues		Community Capital/ Reduce social inequalities across Sri Lanka by supporting the socio-economic progress of communities.	Social and Relationship Capital – Community (page 114)	✓	✓	✓	✓		✓	

MATERIALITY

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								Internal			External		
								Employees	Customers	Shareholders	Suppliers	Community	Environment
12.	Environmental impact of the business	GRI 302, 305, 306	Contribute towards a sustainable green environment through sustainable business practices	 	Mitigate our overall environmental footprint by implementing effective energy, water, and waste management measures across the Bank.	Natural Capital (page 121)	✓						✓
13.	Supplier value creation	GRI 204	Minimise the risk of business disruptions due to a breakdown in the supply chain and thereby strengthen supply value creation	 	Strengthen long-term, mutually beneficial business partner relationships and create shared value through compliance, transparency, ethical business practices and timely payments.	Social and Relationship Management Capital – Supplier (page 106)	✓						✓
14.	Brand equity		Increase market share and achieve a competitive edge by strengthening the brand reputation	 	Grow our brand equity through digitalisation leadership, innovation, strong governance, customer service excellence, effective customer relationship management, strong market presence and stability.	Intellectual Capital (page 76)	✓	✓	✓	✓	✓	✓	✓
15.	Channel management		Deliver an exceptional customer experience through a smooth and sustainable delivery channel	 	Enhance the quality and efficiency of our delivery channels.	Social and Relationship Management Capital – Supplier (page 106)	✓		✓		✓		
16.	Customer access		Improving customer convenience through multichannel access that enhance customer satisfaction	 	Enhance customer experience by offering multiple channels of banking that improve customer convenience	Social and Relationship Management Capital – Customer (page 98) Manufactured Capital (page 70)	✓		✓				✓
17.	Training and development	GRI 404	Develop a high performing team of employees who are capable of implementing the strategic plan of the Bank to deliver an outstanding stakeholder experience	 	Build industry-leading capability and enable our employees to realise their full potential by investing in training and development of our human resources.	Human Capital (page 83)	✓	✓		✓			

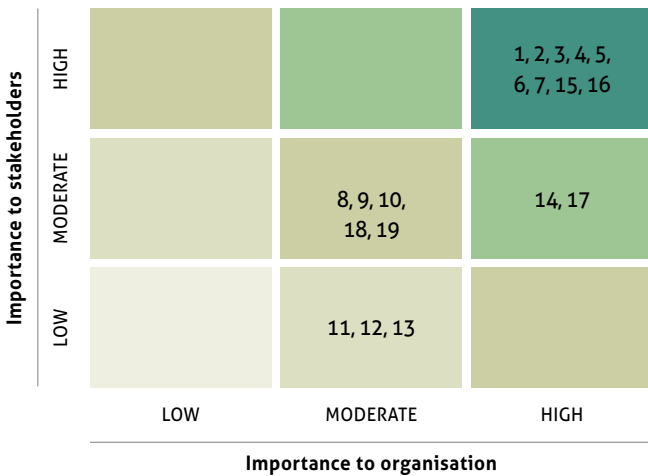
MATERIALITY

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								Internal			External		
								Employees	Customers	Shareholders	Suppliers	Community	Environment
18.	Customer health and safety	GRI 416	Ensure a safe and healthy work environment that is secure, motivating, and engaging		Eliminate any adverse impacts to health and safety of our customers by ensuring our business premises are safe and our products and services are safe	Social and Relationship Management Capital – Customer (page 98)	✓	✓	✓	✓			
19.	Customer service enhancement through remote channels		The COVID-19 pandemic has accelerated customers adopting digital channels of banking		Providing customers a range of digital banking channels to conduct their banking services safely and with ease	Social and Relationship Management Capital – Customer (page 98) Intellectual Capital (page 76)	✓	✓	✓				✓

Relevance

- ✓ High: Considered a priority for action
- ✓ Moderate: Adequate action is required to control potential impacts
- ✓ Low: Adequate measures are already in place or the impact is beyond our control

Materiality Matrix



OUR STRATEGIC PLAN

Our Strategic Plan, "SP 2016 – 2020" was unveiled in 2016 outlining the key strategic initiatives that would enable the Bank to achieve its 2020 profitability targets and secure its position as the undisputed market leader in the financial services sector. The Plan is based on four strategic pillars. Our digitisation vision articulates our revolutionary journey into the digitised space, pushing boundaries and opening windows of opportunity that have showcased impressive results since embedding into our strategic journey in 2015. Five years on, we have transitioned into the most digitalised and technologically advanced bank in the Nation, by converting our 348 branches by facilitating digital customer on boarding application across the island.

Our strategic plan has moved us towards electronic and lifestyle based channels and enhanced our service culture and branch ergonomics. Several customer-centric initiatives have also been implemented to reach a wider range of high-end customers, whilst maintaining our current customer base. We have explored other funding opportunities and expanded our international footprint in high potential markets. Through our paperless banking journey we have offered revolutionary new green banking solutions, brought a new level of convenience to our customers whilst reducing our carbon footprint and levels of energy consumption at the same time.

Key Performance Indicators (KPIs) have been assigned for each of the pillars with set target values to be achieved by 2020. In this section, we give an update of the activities that were performed under each pillar and our progress.

Delivering innovative market-leading client experiences

As the bank of the people, we believe in financial inclusion and in making banking accessible to all citizens of our country. We have been constantly looking at avenues to reach customers and address their banking needs. With the emergence of the tech era, we have been in the forefront of digital innovation through our impressive digitisation programme. This has enabled us to introduce digital products that provide hassle-free banking which is efficient, delivering an unparalleled customer experience.

Maintaining a steady growth momentum and building resilience

Strengthening our balance sheet and growing our capital base is essential support business growth. We play a pivotal role in our Nation's economic development as a key economic driver by spearheading financial inclusivity and providing a wider segment of the population with access to high quality banking facilities and services.



OUR STRATEGIC PLAN

Being operationally excellent in everything we do

Creating a more customer-centric and goal-orientated culture and implementing a new culture of efficiency and service standards to deliver an exceptional user experience.

Always do business the right way

Prioritising corporate governance and ethics, including transparency and accountability. Implementing stringent audit and compliance processes to strengthen the risk management and governance structure of the Bank.

The progress of the strategic plan

We were the first banking institution in Sri Lanka to spearhead a fully-fledged comprehensive digitalisation campaign covering the entire operational structure encompassing all tiers, from the lowest to the highest. The progress of our strategic vision is reflected in our 7,500+ strong team driving the Bank towards its objective of market leadership, with 85% of the Bank's conventional banking

transactions originating via digital channels. Our deposit base have surpassed LKR 1.8 Tn. and we serve a loyal customer base exceeding 14 million. Governance and best practices remains top on the agenda, as reflected through our AA- Fitch Rating.

We are the only entity among the Top 3 most valuable brands in Sri Lanka and the only State bank to showcase an increase in brand value. Our far-reaching digitalisation process and innovation were instrumental for our excellent performance in the Most Valuable Brand Index and being the vanguard in transforming conventional banking business into one that embraces the future in a sustainable and going concern.

Going forward, we will unveil our new strategic plan that would chart the course of the Bank from 2021 onwards, focused on capitalising the opportunities of our technological advancements whilst reaching untapped customer segments in the Nation. The key areas of focus will be improving the health of the Bank by maintaining sound KPIs for business goals and Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity (CAMELS), leveraging and improving digital channels for business growth, introducing structural changes for process improvement and cost leadership and service excellence.

Short Term and Medium Term Measures to Improve the Performance of the Bank in the Future

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

1. Engage with a larger segment of micro, small and medium-sized customers to facilitate not only with credit facilities but also to create a business conducive environment.
2. Ensure the credit facilities are easily deliverable on the need basis of MSMEs.
3. Identify the priority sectors in lending in line with Government's Economic Policy Framework.
 - Focused priority sectors:
 - Agriculture (farming, livestock, fisheries, agro produce collectors and intermediaries, small rice millers)
 - Manufacturing industries focused on direct and indirect exports and imports substitution
 - Food and beverages
 - Innovation and technology based business
 - Essential services (health, education, logistics, telecom)
 - Constructions
4.
 - i. Introduce new loan products in line with the above
 - ii. Allow new MSMEs concessionary rates and terms
 - iii. Low interest rates during capital repayment, grace periods, comfortable security coverage and relax securities for small ticket sizes
 - iv. more empowerment for credit approval to expedite disbursements
 - v. Strengthen the Credit Units who evaluate the requests
 - vi. Participate in concessional lending schemes directed by Ministry of Finance, Central Bank of Sri Lanka and Ministry of Industries and Commerce
 - vii. Conduct entrepreneurship development sessions/conferences
 - viii. Business Counselling

OUR STRATEGIC PLAN

- ix. Set up a desk for women and youth entrepreneurship development – This segment is mostly immature in financial literacy and business planning
- x. Develop entrepreneurship in young graduates through an incubation system developed by the Bank
- xi. Direct entrepreneurs to support agencies such as Industrial Development Board, CISIR, SLTDA, SLIM etc.
- xii. Develop linkages with large corporates for supply chains and business improvements
- xiii. Appoint 24 Development Officers/Field Officers to cover the entire 24 regions to grow MF/DF portfolio
- xiv. Match facilities with Agri Modernisation Scheme of Ministry of Agriculture grants
- xv. Liaise with Smallholder Agribusiness Partnership Programme (SAPP) to consider facilities to farmers
- xvi. Establish a Credit Revival Unit to rehabilitate sick projects

2. Deposits

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

3. Pawning

1. Improve customer service of the pawning unit to increase the pawning income and enhance the pawning business of the Bank through identifying regular and prime customers of pawning and providing a loyalty card to serve them on priority basis, providing uninterrupted service at Pawning section (during employees' lunch time), extending pawning business hours (e.g. 7.00 am to 5.00 pm) and efficient service for renewal customers.

OUR STRATEGIC PLAN

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

4. Credit Card Business

1. Increase the credit card base, credit card profitability and the fee income generated from credit cards (in addition to the interest income); where most of the transactions are done through virtual platforms today through introducing a reward system, Near Field Communication (NFC), use social media for advertising credit cards, use pop up messages to search engines and deploying more POS machines covering all regions.
2. Streamline credit card promotional campaigns.
3. Upgrade service quality and efficiency through staff training.

5. Reducing Non-Performing Loans

1. Expedite recovery through legal proceedings (litigation).
2. Expedite the credit process through appointing three Zonal or Divisional Assistant General Managers (Only for lending purpose) by dividing the 24 regions into three or four zones.
3. Train all the credit officers on recovery and litigation procedures.
4. Help small scale customers of the Bank to overcome their unexpected/unfavourable situations and to develop their business providing financial literacy and financial advices to reduce their unnecessary cost, increase turnover, potential market etc., with a view to protect our customers and to strengthen their business with new business opportunities as well.
5. "VIEWPOINT" centres to support and partnering with genuine defaulters.
6. Monthly Recovery Champions to incentivised employees.
7. Maintain close engagement with non-performing customers.
8. NPL review committee with stringent monitoring on recovery.

6. Management of Expenses

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

7. New Channels

1. Attract immediate family members of internal customers of the Bank, an organised effort to tap into the staff and their families – as an alternate channel to increase the low cost deposit base, credit card volume and healthy customer base of the Bank simultaneously and increase loan portfolio of the Bank; since the non-performing ratio would be zero or very low in this segment.


8. New Product Development

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




OUR STRATEGIC PLAN

Contribution to SDGs



The following section covers the progress made in implementing the strategic priorities to achieve the Bank's strategic vision. Relevant strategic priorities have been identified for each of the four strategic pillars to deliver value to the stakeholders. The Bank is committed to contributing towards the Sustainable Development Goals whilst executing its strategic priorities. The strategies maintain a close interaction between the six capitals – financial, manufactured, human, intellectual, natural, and social and relationship capitals, which facilitate the value creation process of the Bank.

Strategic pillar	Material topics, SDGs, and capitals	2020 strategic priorities	2020 progress	Future priorities
Delivering innovative market-leading client experiences GRI 201	<p>Material topics</p> <ul style="list-style-type: none"> Customer experience Digital leadership Brand equity Customer access <p>SDGs</p>  <p>Capitals</p> <ul style="list-style-type: none"> Manufactured capital Human capital Intellectual capital 	<ul style="list-style-type: none"> Understand customer needs and provide value added and cost effective banking solutions Enhance customer experience Provide state-of-the-art technology to customers Build enduring relationships with customers 	<ul style="list-style-type: none"> Successfully launched Corporate Internet Banking (CIB) and Corporate Mobile Banking (CMB) systems to enhance customer experience Kiosk machines were installed in 244 SBUs to facilitate bill payments, partial payment of pawn instalments and redeem pawned articles Launched the Retail Loan Originating System (RLOS) in 100 branches to process personal loans at a shorter time, on a digital application Continuous training was given to staff on customer service standards Potential customers were attracted through customer focused initiatives that were launched by corporate banking and commercial credit departments 1.6 Mn. customers were on boarded to digital banking channels Digital banking products such as credit cards against to fixed deposits and pensioner's life certificate online verification system were launched Empowered Sri Lanka's micro and SME sectors and supported the Government's economic development agenda People's Bank crowned as the Best Digital Bank in Sri Lanka 2020 at Asiamoney Best Bank Awards 2020 and The International Business Magazine Awards 2020 	<ul style="list-style-type: none"> Deliver an outstanding and differentiated banking experience for our customers, by leveraging on our digital network leadership position Nurture and strengthen a customer-centric culture Continue to set the bar in the banking industry by launching innovative products, processes and technology

OUR STRATEGIC PLAN

Strategic pillar	Material topics, SDGs, and capitals	2020 strategic priorities	2020 progress	Future priorities
<p>Maintaining a steady growth momentum and building resilience</p>	<p>Material topics</p> <ul style="list-style-type: none"> Financial performance <p>SDGs</p>  <p>Capitals</p> <p>Financial capital Intellectual capital</p>	<ul style="list-style-type: none"> Record a strong financial performance Strengthen risk and governance Enhance cost efficiency Strengthen the capital base 	<ul style="list-style-type: none"> Despite the challenging economic context, the Bank recorded a profit after tax of LKR 14.2 Bn. for the year 2020. Total asset base grew to LKR 2.2 Tn., gross loans and advances reached LKR 1.7 Tn. and the deposit base swelled to LKR 1.8 Tn. as at 31 December 2020. Issued the largest-ever Basel III, Tier II -compliant, subordinated debenture ever concluded up to now, which strengthened the stability of the Bank further. 	<ul style="list-style-type: none"> Maintain a steady growth momentum Build the resilience of the Bank by strengthening the risk and corporate governance structures Achieve cost efficiencies by reducing net operating costs through digitalisation Maintain adequate liquidity and capital levels
<p>Being operationally excellent in everything we do</p> <p>GRI 410, 402, 403, 404, 405</p> <p>GRI 404</p>	<p>Material topics</p> <ul style="list-style-type: none"> Operational efficiency Employee productivity Talent management Channel management Training and development <p>SDGs</p>   <p>Capitals</p> <p>Natural capital Human capital Intellectual capital</p>	<ul style="list-style-type: none"> Enhance operational efficiency Maintain the digital leadership position Augment employee productivity Effective talent management Strengthen risk and governance mechanism Spearhead product innovation, process development and digitalisation of banking services Engage in continuous process improvement Promote Green Banking Invest in employee development Nurture a culture of learning and development 	<ul style="list-style-type: none"> The Bank has successfully implemented the Strategic Plan for the period 2016-2020. The plan was based on 12 strategies broken down into 65 strategic initiatives and 488 actions for easy implementation. We have successfully implemented over 90% of the strategic initiatives as at the end of 2020. Enhanced service culture and branch ergonomics. Streamlined human resource policies such as welfare policy, transfer policy, compensation policy, and leave policy. Invested on training programmes, webinars and online trainings. Continuous focus on driving business with efficiency, innovation and technological advancement. Streamlined processes 	<ul style="list-style-type: none"> Achieve operational excellence through automation and process development Continue to introduce innovative banking technologies to customers Train staff on aspects such as audit standards and internal controls environment Promote Green Banking

OUR STRATEGIC PLAN

Strategic pillar	Material topics, SDGs, and capitals	2020 strategic priorities	2020 progress	Future priorities
<p>Always do business the right way</p> <p>GRI 416, 417, 418</p> <p>GRI 205</p> <p>GRI 202, 203, 413</p> <p>GRI 302, 305, 306</p> <p>GRI 204</p> <p>GRI 416</p>	<p>Material topics</p> <ul style="list-style-type: none"> Risk and governance Compliance Responsible lending Anti-corruption Socio-economic impacts Environmental impact of the business Supplier value creation Customer health and safety <p>SDGs</p>   <p>Capitals</p> <ul style="list-style-type: none"> Social and relationship capital Natural capital Human capital 	<ul style="list-style-type: none"> Comply with the standards set out by the ECD, and the International Labour Organization Contribute towards the 10 principles outlined under the UN Global Compact and the United Nations Sustainability Development Goals (UNSDG) Implement Board approved policies for every operational aspects 	<ul style="list-style-type: none"> Promoted the Green Banking concept as a part of the Bank's sustainability commitment Contributed towards the UN Sustainability Development Goals Complied with BASEL III and IFRS 9 regulations Strengthened the whistle-blower policy, which is a critical element of the internal control system and corporate governance framework of the Bank Implemented an effective Integrated Risk Management Framework Ensured the Code of Ethics is followed by all employees Terms of reference for Board sub-committees Stringent implementation of anti-corruption practices 	<ul style="list-style-type: none"> Continue to support the UNSDG and adopt relevant standards Implement Board approved policies for every operational aspect Maintain a strong culture of compliance Promote a culture of ethics and integrity Enhance employee engagement



VALUE DELIVERED

The section provides an overview of the capitals including the performance, key initiatives to support the stakeholders during the COVID-19 pandemic, challenges and future outlook according to each capital.

- 65** / Financial Capital
- 70** / Manufactured Capital
- 76** / Intellectual Capital
- 83** / Human Capital
- 98** / Social and Relationship Capital
- 121** / Natural Capital





FINANCIAL CAPITAL

Financial capital is most critical to our business, as we are able to achieve sustainable growth, deliver increased value to our stakeholders and maintain our standing in the local banking industry by leveraging our financial capital. The capital which includes debt and equity finance can be increased by increasing our profit generation and managing costs.

Income statement analysis

Gross income

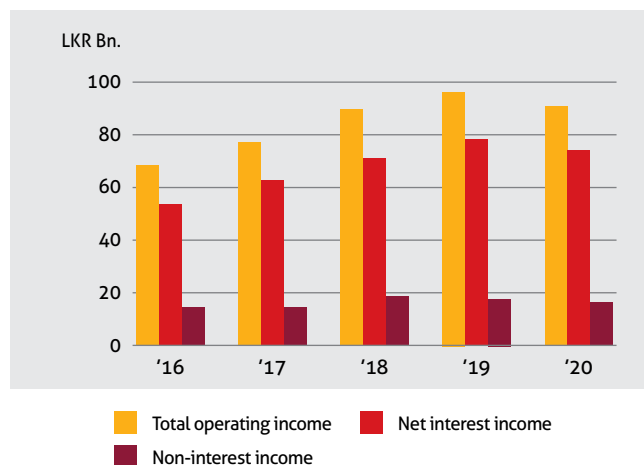
The year 2020, People's Bank Group's gross income reaching LKR 223.9 Bn., a year-on-year (YoY) decrease of 6.0%. Interest income, fee and commission income and other non-funded income were main contributors to this.

Total operating income

LKR Bn.	2020	2019	2018	2017	2016
Total operating income	90.8	96.5	89.8	77.5	68.4
- Net interest income	74.4	78.6	71.2	62.7	53.6
- Non-interest income	16.4	17.9	18.7	14.8	14.8
NIM - %					
- Consolidated	3.3	3.8	4.0	4.0	3.9
- Bank	3.0	3.2	3.5	3.5	3.5

Consolidated total operating income reached LKR 90.8 Bn. in 2020 with compared to LKR 96.5 Bn. in 2019. The Bank's operating income accounted for 79% of Group operating income.

TOTAL OPERATING INCOME, NET INTEREST INCOME, AND NON-INTEREST INCOME



Net interest income

Net interest income which represents core operations of the Group, accounted for approximately 81.9% of total operating income. Net interest income decreased by only 5.3% YoY to LKR 74.4 Bn. in 2020, compared LKR 78.6 Bn. in 2019 under the COVID-19 conditions. Given below is an analysis of the constituents of net interest income.

Interest income

Interest income contracted by 5.9% to LKR 207 Bn. in 2020. This was mainly due to loans interest rate reduction in the industry. Income from customer advances accounted for 83.9% of total interest income, whilst other investments comprising Government Securities accounted for the balance.

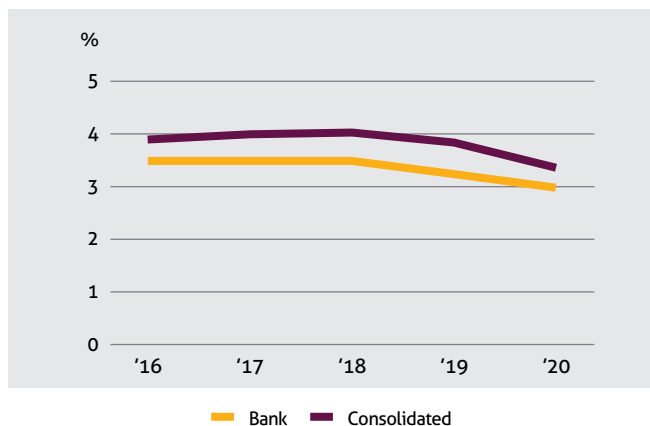
FINANCIAL CAPITAL

Interest expenses

Interest expenses also contracted by 6.2% to LKR 132.6 Bn. in 2020 and LKR 141.3 Bn. in 2019 primarily due to the interest rate reduction on deposits. Of the total interest expenses, deposit related expenses accounted for approximately 85% of total interest expenses, of which more than 78% accounted for term deposits.

The Group's net interest margin reduced to 3.3% in 2020 from 3.8% in 2019 due to the decreasing trend in advance rates. At Bank level also, the interest margin decreased to 3.0% in 2020 to 3.2% in 2019. This is mainly due to monetary policy measures imposed to reduce interest rates and the moderating loan book growth due to sluggish economic environment.

NET INTEREST MARGIN



Non-interest income

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

The Group's net non-interest income decreased by 8.2% from LKR 17.9 Bn. in 2019 to LKR 16.4 Bn. in 2020. Of this, net fee and commission income, which accounted for more than one third of net non-interest income, amounted to LKR 7.3 Bn. in 2020 as compared to LKR 8.2 Bn. in 2019 due to contraction in international trade activities which came with the pandemic.

Net gains, which accounted for 17% of total non-interest income, increased by 4% to LKR 2.8 Bn. in 2020; from LKR 2.7 Bn. in the previous financial year.

Other operating income decreased by 10.4% to LKR 6.3 Bn. from LKR 7.0 Bn. in 2019. Other operating income consists of net earned premiums across the Group's insurance business and bad debt recoveries.

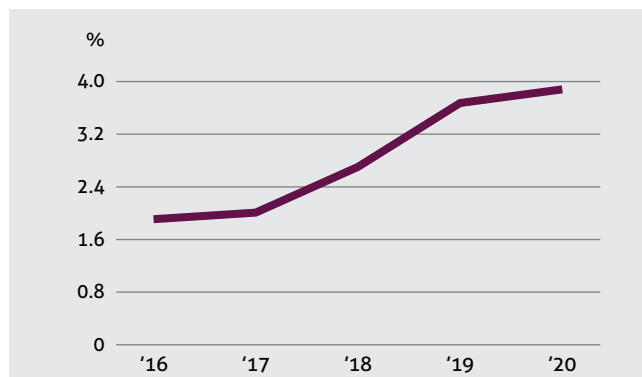
Impairment charges

Impairment charges rose by 50.4% to LKR 17.6 Bn. in 2020 compared to LKR 11.7 Bn. in the previous year.

At a bank level, asset quality measured by gross non-performing loans to total loans remained at 3.2%, whilst at Group level it increased to 3.9% from 3.7% recorded in 2019.

The provisioning policy of both at Bank and Group levels continued to be conservative, enabling coverage levels of 64.5% and 64.8%, respectively to be maintained at the end of the financial year 2020.

NON-PERFORMING LOANS



Cost management

Total operating costs decreased by 7.7% to LKR 44 Bn. in 2020 from LKR 47.6 Bn. in 2019.

Personnel costs:

Personnel costs accounted for approximately 54% of total operating costs and Bank was able to maintain at same level as reported in 2019.

Other operating cost:

Other operating costs decreased by 14.4% to LKR 20.3 Bn. during the year under review from LKR 23.7 Bn. in 2019. Approximately, one fourth of the decrease was attributable to the marketing and promotional costs contraction due to cost control during COVID 19 period.

FINANCIAL CAPITAL

The Group's cost to income ratio improved to 53.5% from 61.3% in 2019. At Bank level, cost to income ratio improved to 54.3% in 2020 from 61.8% in 2019. Further, improvements are expected over the short-to-medium term, amidst enhanced employee productivity and improved operational efficiency resulting from the ongoing Bank's digitalisation drive.

Value Added Tax(VAT), Nation Building Tax (NBT) and Debt Repayment Levy (DRL):

Decreased by 59.4% to LKR 4.7 Bn. in 2020 from LKR 11.5 Bn. in 2019. This is due to the abolition of Nation Building Tax (NBT) and Debt Repayment Levy (DRL) from December 2019 and January 2020 respectively.

Profitability

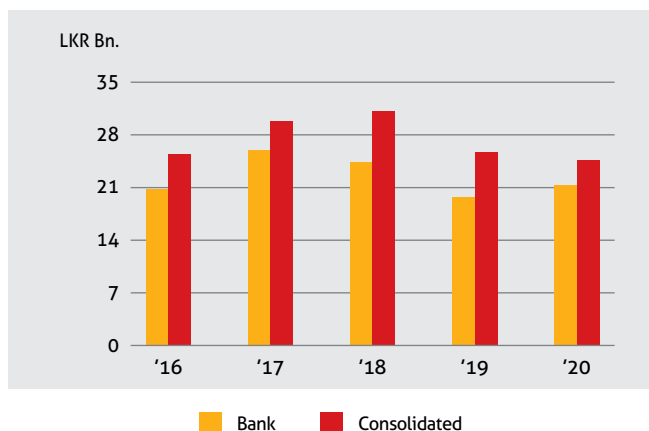
The Group's pre-tax profit decreased by 3.9% from LKR 25.7 Bn. in 2019 to LKR 24.6 Bn. in 2020.

Meanwhile the Group's return on equity (ROE) dipped to 12.0% compared to 12.8% in 2019. At Bank level, this ratio was 14.4% compared to 13.9% in the previous year.

Return on assets (ROA) as measured by pre-tax profits over average assets was maintained at 1.1% in 2020.

Profit after tax decreased by 0.5% to LKR 16.1 Bn. compared to LKR 16.2 Bn. in 2019.

PROFIT BEFORE TAX



Balance sheet analysis

Deposit growth

LKR Bn.	2020	2019	2018	2017	2016
CASA	757	571	543	525	484
Term deposits	1,172	1,012	943	771	633
Others	6	6	10	9	3
Total	1,935	1,589	1,495	1,306	1,120
CASA %	39.1	35.9	36.3	40.2	43.2

Currency	2020	2019	2018	2017	2016
Local	89.8%	91.8%	93.4%	90.6%	88.7%
Foreign	10.2%	8.2%	6.6%	9.4%	11.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

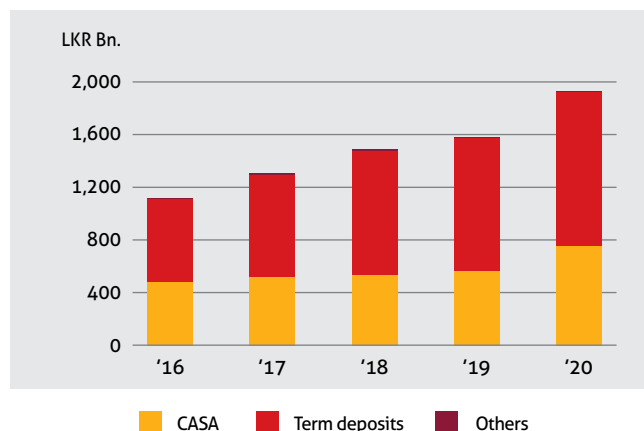
The Group's customer deposits increased by 21.8% to LKR 1,935.2 Bn. as at end 2020 from LKR 1,588.9 Bn. at the end of the previous financial year.

Deposits which account for approximately 81% of total Bank/Group funding, reflects the Bank's strong deposit base which is supported by the industry's largest network spread across the country.

Meanwhile as a reflection of the low interest rate environment, CASA increased to 39.1% in 2020 from 35.9% in 2019.

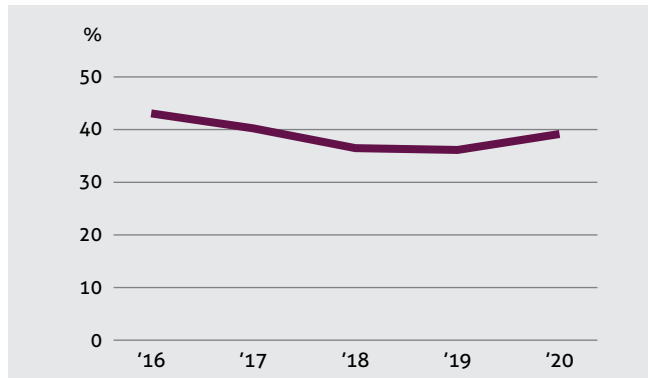
Local currency deposits accounted for 89.8% of total deposits and foreign currency deposits increased to 10.2% in 2020 from 8.2% in 2019.

DEPOSITS



FINANCIAL CAPITAL

CASA

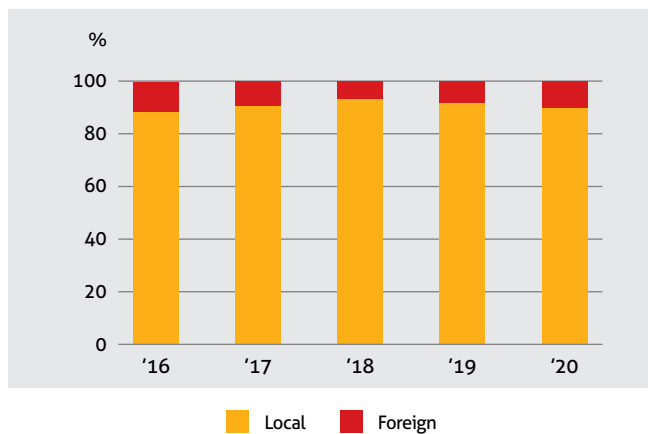


Gross loans grew by 21.5% in 2020 to LKR 1,876.2 Bn., compared to LKR 1,543.7 Bn. in the previous year. Much of the loan growth stemmed from credit extended to the State/State Owned Enterprises.

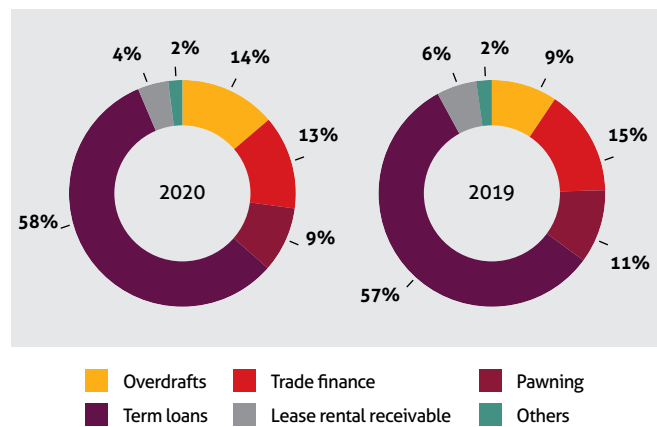
The Sector wise exposures were diverse with construction and infrastructure accounting for 21% and 20% respectively of the total customer advances in 2020.

Despite challenging market conditions, gross non-performing loan ratio was maintained at 3.9% below the industry average. In 2020 Bank non-performing ratio was 3.2%.

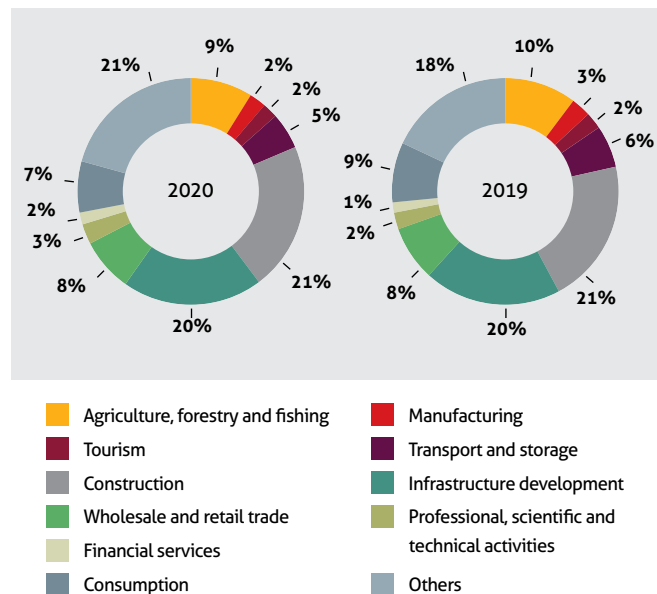
TOTAL DEPOSITS – BY CURRENCY



CUSTOMER ADVANCES BY TYPE



CUSTOMER ADVANCES BY SECTOR



Customer advances growth

LKR Bn.	2020	2019	2018	2017	2016
Total advances (gross)	1,876	1,544	1,490	1,209	1,076
By type					
Overdraft	258	145	126	116	58
Trade finance	251	234	281	141	177
Pawning	175	163	150	137	114
Term loans	1,073	880	808	700	618
Lease rental receivable	82	88	95	89	84
Others	38	34	30	26	24
Total	1,876	1,544	1,490	1,209	1,076

FINANCIAL CAPITAL

Regulatory capital

Total shareholders' equity increased by 7.0% to LKR 139.1 Bn. in 2020 compared to LKR 130.0 Bn. in 2019.

Key performance measures

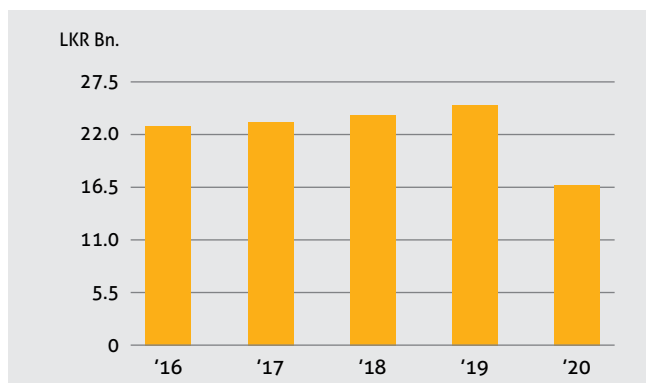
- Basel III Tier I and Total Capital Adequacy Levels were maintained at 10.7% and 15.6% respectively as at 31 December 2020. At end 2019, Tier I and Total Capital Adequacy Levels were 11.6% and 14.9% respectively. At Bank level, Tier I and Total Capital Adequacy Levels were 9.5% and 15.5%, respectively, whilst year end 2019 Tier I and Total Capital Adequacy Levels were 10.7% and 14.7% respectively.
- Other Basel III measures
 - a. Liquidity coverage ratio, measured by total High Quality Liquid Assets over 30 days Net Cash Outflow, was consistently maintained above the minimum requirement of 90% and reported as both rupee and all currency was 166.8% and 111.6% respectively.
 - b. Leverage ratio, measured by Tier I over total gross exposures, was 4.4% as at 31 December 2020, reflecting the extent of controlled asset growth towards the year. Minimum requirement was 3.0% from January 1, 2019 onwards.

Shareholder value creation

The Bank is a significant contributor to the Government revenue through the payment of direct and indirect taxes, dividends and special levies. Over the past 10 years, the Group has created value exceeding LKR 187 Bn. to the Government.

During the year, the total value created for the Government, amounted to LKR 16.8 Bn. and over 85% of the value was generated by the Bank.

VALUE CREATED FOR GOVERNMENT – GROUP





MANUFACTURED CAPITAL

The Bank's manufactured capital comprises the physical assets that facilitate value creation for our stakeholders. This includes our island-wide branch network, vehicle fleet, ICT infrastructure and property, plant and furniture.

The efficient management of manufactured capital enables us to be responsive to customer requirements, effectively deliver our products and services, generate profits and grow. Particularly, our investment in digital infrastructure enables our employees to engage in activities that enhance their knowledge and skills for credit analysis, advisory services and the like.

Our approach

Developing a high-quality asset base is a continuous process that provides us a distinctive competitive advantage. We strive to create a technologically superior asset base which would secure the long-term growth prospects of the Bank. We ensure that all assets are maintained at optimal levels to eliminate downtime and rework, ensure smooth operations and drive stakeholder value.

→ KEY HIGHLIGHTS

- ▶ Largest branch network in the banking industry
- ▶ Widest SBU network

→ MATERIAL THEMES

- ▶ Digital leadership
- ▶ Customer access

→ CHALLENGES

- ▶ Setting up new SBUs and refurbishing of branches has to be halted due to COVID-19
- ▶ Sourcing computer hardware and other equipment was challenging due to import restrictions and COVID-19

→ OUR IMPACT



Ensure a safe and conducive workplace for our employees



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



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



Contribute towards a greener planet through our digital banking channels



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

→ VALUE CREATED

LKR 1,026 Bn. transactions conducted via SBUs

MANUFACTURED CAPITAL

Value delivered using Manufactured Capital through COVID-19



- ▶ More customers adopted digital banking following the pandemic
- ▶ Mobile ATMs were mobilised to serve customers in 1,000 remote areas of Sri Lanka
- ▶ People across Sri Lanka conducted their banking services through People's Bank SBUs
- ▶ Over 70% of our branches were kept open during curfew lockdowns
- ▶ Successfully met the increased demands for digital transactions

Capital linkages



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



- ▶ Paperless banking through digital channels
- ▶ Green branches that optimise natural resources



- ▶ Additional jobs through capacity expansion
- ▶ Staff empowered on improved technology and processes
- ▶ Digitalisation facilitate employees to engage in activities that enhance their knowledge and credit analysis skills



- ▶ SBUs and Green banking concept increased brand visibility
- ▶ Process efficiency through advanced technology



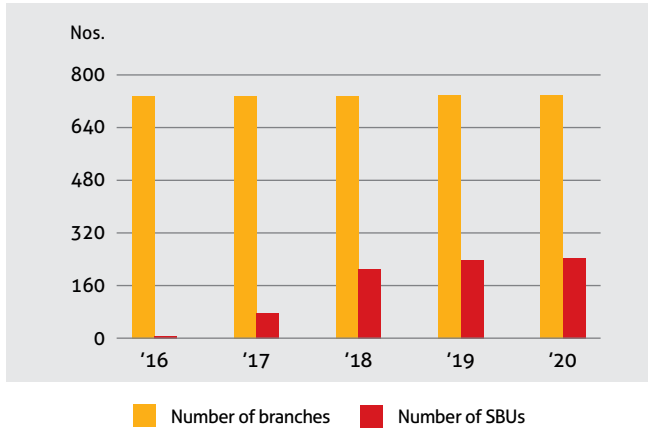
- ▶ Stronger customer relationships
- ▶ Enhanced customer experience through digitalisation
- ▶ Customer-friendly ambiance in branches and SBUs

Manufactured capital statistics

Number of branches		Number of ATMs		Number of SBUs		Investment in branch development (LKR Mn.)		Investment in ATMs (LKR Mn.)		Investment in IT systems (LKR Mn.)	
2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
737	737	506	572	7	102	1,176	1,091	21	396	397	987
2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
738	739	716	755	210	239	1,391	1,378	299	203	322	430
2020		2020		2020		2020		2020		2020	
741		765		244		228		39		196	

MANUFACTURED CAPITAL

NUMBER OF BRANCHES AND SBUs



Our customer touchpoints






As a Bank committed to financial inclusion and in making banking accessible to all citizens of the country, we contribute towards the development of Sri Lanka while supporting to build a society that is financially strong and ready to face the future.

We continued to enhance customer experience through our physical and digital customer touchpoints across Sri Lanka. As Sri Lanka's leader in digital banking services, we provide financial solutions to over 14 million customers across the island through our 741 branches and an extended ATM network of over 4,000 ATMs. Through our network of SBUs located island-wide, customers enjoy a convenient and efficient banking experience 24 hours, a day on all 365 days of the year, without ever having to visit a bank branch. Our total investment on expansion of customer touchpoints was LKR 228 Mn.

for the financial year 2020. Transactions conducted through the self-service channels during the year amounting to LKR 1,026 Bn. Our commitment towards environmental sustainability is reflected in our "People's Green Pulse" environmental sustainability policy.

To improve the delivery of our services, we relocated two branches to ensure greater customer convenience and collaborated with Lanka Pay Gateway to expand our ATM network to better serve customers.

Our premier "People Elegance" exclusive banking concept too was extended to Ratnapura to cater to leading high net worth customers in the world renowned Gem City.

 741 branches in every province	 765 ATMs	 244 Self-Banking Units
 221 Kiosks	 274 CDMs	



Habarakada Service Centre opening



Isipathana College Self Service School Banking Unit opening

MANUFACTURED CAPITAL

GRI 102-4,102-6

Geographical dispersion of our network



→ NORTHERN	
	49 BRANCHES
	46 ATMs
	12 SBUs
	11 KIOSKS
	12 CDMs

→ NORTH CENTRAL	
	53 BRANCHES
	55 ATMs
	19 SBUs
	14 KIOSKS
	21 CDMs

→ EASTERN	
	61 BRANCHES
	54 ATMs
	16 SBUs
	14 KIOSKS
	17 CDMs

→ NORTH WESTERN	
	75 BRANCHES
	72 ATMs
	20 SBUs
	20 KIOSKS
	24 CDMs

→ WESTERN	
	215 BRANCHES
	1 DIGITAL BRANCHES
	238 ATMs
	88 SBUs
	79 KIOSKS
	104 CDMs
	1 ELEGANCE CENTER

→ CENTRAL	
	96 BRANCHES
	98 ATMs
	29 SBUs
	25 KIOSKS
	32 CDMs

→ UVA	
	49 BRANCHES
	55 ATMs
	14 SBUs
	14 KIOSKS
	14 CDMs

→ SOUTHERN	
	86 BRANCHES
	91 ATMs
	30 SBUs
	28 KIOSKS
	31 CDMs

→ SABARAGAMUWA	
	56 BRANCHES
	56 ATMs
	16 SBUs
	16 KIOSKS
	19 CDMs
	1 ELEGANCE CENTER

MANUFACTURED CAPITAL



Kiribathkumbura Service Centre opening



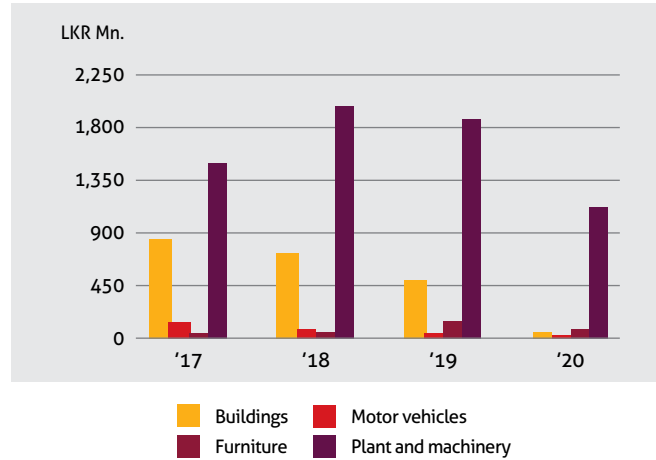
Opening of "People's Elegance" Banking Centre in Ratnapura

Investment in property, plant and equipment

LKR 1,284.4 Mn. was invested to augment our physical infrastructure by acquiring property, plant and equipment in 2020. This includes freehold land, buildings, motor vehicles, furniture, machinery, equipment, and computers that supports the value creation process of our Bank.

Significant investments were also made to develop and upgrade our IT infrastructure in tandem with our dynamic digitalisation drive. During the year, there was a challenge in sourcing computer hardware due to the pandemic.

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT



Information technology

We have elevated the entire banking operations to next level by adopting the most advanced technology platform to implement our digitalisation process which is easy to upscale and capable of meeting future expansion capacity requirements of our Bank. The first-of-its kind technology in Sri Lanka have given us an unprecedented advantage in the banking sector helping us to expand coverage, improve reliability, convenience, and speed.

During the year, we improved our IT infrastructure in our branch network in terms of bandwidth, hardware, and communication. To strengthen IT security we upgraded the firewalls and conducted four assessments to monitor the health of our IT security. Security solutions were implemented to facilitate employees to work from home. We also commenced moving towards cloud adoption to improve data security and reduce infrastructure cost.

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

The details of the host of world-class digital banking facilities offered to our customers are given on pages 81 and 82 of this Report.

Future outlook

To offer all our customers world-class conveniences, we will focus on enhancing the services of our branch network and continue to digitally empower branches. We will enhance our network and deploy new market leading technologies in order to maintain our leadership position in the banking industry. More processes will be digitalised to improve efficiency and increase customer convenience.

The Digital Banking Trailblazer



People's Bank has been bestowed prestigious accolades at the World Finance Digital Banking Awards 2020 and at the International Business Magazine Awards 2020 for its outstanding achievements in the digital banking sphere of Sri Lanka.

INTELLECTUAL CAPITAL

Intellectual capital is the driving force behind our value creation process. It includes our intangible assets such as brand reputation, organisational knowledge, corporate culture, awards and accolades and systems and processes.

Our approach

We enhance the value of our intellectual capital by investing in digitalisation to offer cutting-edge banking solutions to customers, upgrading our systems and processes, nurturing a strong culture of compliance, building our corporate brand, enhancing our organisational knowledge and innovating new solutions.

KEY HIGHLIGHTS

- ▶ 92% customer satisfaction
- ▶ Brand Equity Index of 3.6
- ▶ 1,707 employees with over 20 years of service
- ▶ AA- credit rating from Fitch Lanka Rating Ltd.
- ▶ 9 awards and accolades won in 2020

MATERIAL THEMES

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

CHALLENGES

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

OUR IMPACT



Investment in digitalisation and innovation develop industry innovation and infrastructure



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



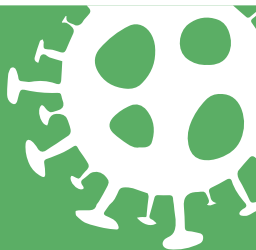
Our investment in digitalisation, systems and processes increase the efficient use of energy, water, and other material contributing to preserving scarce natural resources

VALUE CREATED

Brand strength increased from 80 to 81 in 2020.

INTELLECTUAL CAPITAL

Supporting our stakeholders through COVID-19



Our digital investments enabled to support our customers and our employees throughout the pandemic

- ▶ Kept all the island-wide Self-Banking Units (SBUs) open throughout the year following strict safety guidelines to ensure continued service for the people of our Nation
- ▶ Our digital innovations have made banking simpler and safer for our customers
- ▶ Transactions conducted through our digital channels soared by 152% to LKR 268.9 Bn.
- ▶ Number of People's Web/Wave registrations increased to 500,000+ enabling many users to conduct their transactions from anywhere, anytime
- ▶ Our innovative technology and tools across the Bank helped to foster effective virtual collaboration for employees and customers

Brand equity

People's Bank retained its No. 3 position in the Brand Finance ranking and its brand value reported as LKR 44.75 Bn. in 2020. We are in the rankings of the Top 10 Most Valuable Brands in Sri Lanka. Our constant digitalisation stimulus was a crucial imperative in adding value to our brand. We also obtained a rating of AA-(lka) from Fitch Ratings Lanka and an AAA- from Brand Finance Lanka, and our brand strength increased from 80 to 81 in 2020.

Innovation is the nucleus upon which we have continued to build our brand, reputation and business upon. We are honoured to be the only entity among the top three most valued brands to showcase an increase in brand value and to be the only State bank quoted by Brand Finance as being in the forefront of innovation. At a time when others experienced a decline, our unrelenting innovation mindset enabled to add to our brand value during a difficult year.

Capital linkages

Investment in digitalisation has reduced costs across the Bank on a sustainable level.



- ▶ Investment in digitalisation has reduced costs across the Bank on a sustainable level



- ▶ Digitalisation has reduced consumption of paper significantly contributing to a green environment



- ▶ Investment in capacity development and training improves employee productivity and build tacit knowledge



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



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

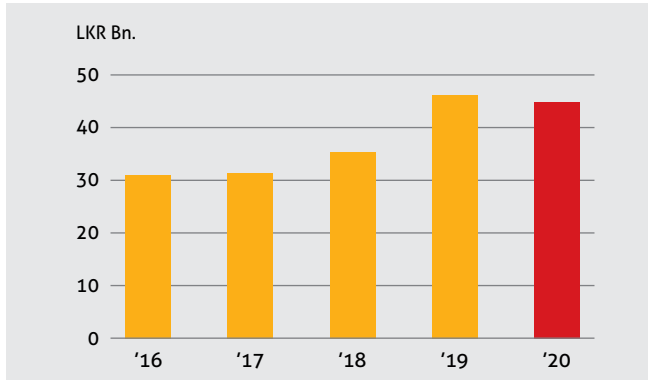
Brand performance

People's Bank brand has improved in all aspects in 2020.

Brand performance	2020	2019
Brand equity	3.6	4.1
Brand awareness	34%	38%
Brand rating	AAA-	AAA-
Brand strength	81	80
Brand value	LKR 44.75 Bn.	LKR 46.16 Bn.
Customer satisfaction	92%	94%

INTELLECTUAL CAPITAL

BRAND VALUE



Awards and accolades

We have won countless awards on the national and international arena. We are proud to be recognised for our performance through awards, accolades, and accreditations; which highlights the extent to which our services have influenced the lives of the people of our Nation.

- International Business Magazine Awards 2020**
 - Best Digital Bank Award in Sri Lanka 2020
- WorldThe International ARC Awards, USA**
 - "The Best in Sri Lanka Award" for 2019 Annual Report
- World Finance Digital Banking Awards 2020**
 - Best Consumer Digital Bank in Sri Lanka for 2020
 - Best Mobile Banking App 2020 in Sri Lanka
- ADB TFP Awards 2020**
 - Trade Deal of the Year
- SLIM Nielson People's Awards 2020**
 - "Service Brand of the Year" for the 14th consecutive year
 - People's Banking Service Provider of the Year 2020 for the 14th consecutive year
- International Chamber of Commerce Sri Lanka (ICCSL) and Chartered Institute of Management Sri Lanka (CIMA)**
 - Top 10 most admired companies of Sri Lanka
- Asiamoney Best Bank Awards 2020 (Sri Lanka)**
 - The Best Digitised Bank 2020

INTELLECTUAL CAPITAL



People's Bank retains No 3 spot in Sri Lanka's Most Valuable Brands by Brand Finance



Receival of certification from the Central Bank of Sri Lanka (CBSL) to acquire Lanka QR Payments

Brand development

We have a strong brand reputation, which reflects our values and our differentiation strategy. Whilst reliability, service, convenience and technology play an important role in developing a strong brand, our value proposition comprising digitalisation leadership, innovation, good governance, customer service excellence, market presence and stability has helped to build a strong brand. The fact that we are backed by the Government of Sri Lanka elevates the trust in our Bank further.

Our customer satisfaction rating which reflects our inclusive digital banking reach was a high 92% in 2020. Over 85% of conventional banking transactions are now conducted on our digital channels and the value of transactions through our mobile apps and internet banking have increased to LKR 268.9 Bn. in 2020.

We keep a closely track our brand health in terms of brand equity, awareness, and customer satisfaction by conducting surveys periodically.

In order to add value to our corporate image, we commenced building an integrated brand across the Bank through standardisation. In this context, a new corporate PowerPoint template as well as a unique font style called "Sansation" was introduced. 22 of the branches were branded with the new People's Bank branding in 2020.

During the year social media, advertising was extensively used to achieve business growth and conduct product promotions.

Corporate culture

As the "Bank of the people", we are rooted in a value based culture underpinned by our vision, mission, and core values. We nurture a culture that fosters knowledge, supports innovation and inclusivity.

The three main aspects of our culture are given below:

Corporate culture – open, transparent, accountable, customer-centric, goal-orientated and team-oriented

Knowledge culture – six decades of expertise and knowledge

Innovation culture – bottom-up approach and a rewarding culture filled with opportunity and aspirations for all team members

Organisational knowledge

The accumulated knowledge of our experienced employees is one of our greatest assets. We have a workforce consisting of employees who have been with the Bank for a long period and who are the custodians of our corporate culture. For almost six decades of operations, we have created an immense pool of expertise and experience by collaborating with our employees. We strive to document and share this vast store of tacit, accumulated knowledge, including highly specialised expertise in banking in multiple ways through knowledge sharing sessions, extensive training, and human capital management tools.

The diversity of our employees in terms of their qualifications, knowledge and experience is an important competitive advantage. Our high employee retention rate of 98% showcase the success in retaining experienced and knowledgeable people who are capable of delivering an outstanding service to customers.

INTELLECTUAL CAPITAL

Qualification	Number of employees
MSc/MBA/Postgraduate	452
BA/BSc	1,588
CIMA/CFA/CMA/CA Sri Lanka/Banking	1,667
Qualifications in Law	88
Qualifications in IT	147
Diplomas and other	4,278
Total	8,220

Business ethics

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

Our stringent audit and compliance processes is reflected in our ratings. Please refer page 173 for our comprehensive governance framework.

We have continued to maintain a clear record without being subject to any fines or actions for any instances of non-compliance.

Innovation

We place a high value on innovation and pursue it relentlessly, as we understand that constant innovation is key to grow to our full potential. We want every citizen in Sri Lanka to have access to the latest and most advanced banking solutions that would elevate their lifestyles. That is why we pioneered Sri Lanka's first ever Innovation Centre, to strengthen our innovation drive and digital initiatives. We have continued to develop platforms and launch cutting-edge banking solutions to position our Bank on a par with some of the best global banks and nurture internationally savvy banking citizens.

Our digitalisation drive

Having embarked on our ambitious digitalisation drive in 2016, four year on, we have been crowned the "Best Digital Bank in Sri Lanka" at the prestigious Asiamoney Best Bank Awards 2020. Today, we are at the forefront of digital innovation bringing the benefits of digitalisation to the entire Nation, which has enabled us to gain global recognition.

Our digitalisation drive have enabled us to achieve cost savings, improve processes, automate repetitive functions, and onboard more customers without any investment on branch expansion. This is reflected in our earning indicators where revenue per employee has increased substantially from LKR 12.4 Mn. in 2015 to LKR 24.8 Mn. in 2020. Our future business expansion depends on how well we upgrade our core-banking system and digital platforms and rollout new process innovations.

Our investment in technology has exceeded LKR 1.5 Bn. for the year 2020 and we are building a single digital integrated banking system which connects all our functions and processes, and customer interfaces such as web and mobile apps. Our integrated infrastructure encompass critical components like governance, security, and risk management.

The COVID-19 pandemic accelerated the shift to digital banking, with more of our customers using digital solutions – be it online or via their mobile phones. We had the infrastructure and the solutions in place to enable them to do their banking from the safety of their home.



Awarded the "Best Digital Bank in Sri Lanka" at the prestigious Asiamoney Best Bank Awards 2020, International Business Magazine Awards 2020 and World Finance Digital Banking Awards 2020



First fully digitalised branch in Sri Lanka



244 Self-Banking Units across the nation



First Bank IT-Innovation Centre in Sri Lanka



People's Wave, most downloaded banking app on the Google Play Store



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

INTELLECTUAL CAPITAL

Self-Banking Units (SBUs)

We pioneered the SBUs in Sri Lanka, which is a unique concept of "banking in box". Equipped with ATMs, Cash Deposit Machines (CDMs) and Kiosk machines these physical infrastructures are branded with the new People's Bank logo and vibrant colours and hence have a high standout appeal. The customer footfall at branches have reduced significantly, with approximately 80% of branch counter transactions conducted via SBUs. In particular, SBUs have enabled our rural customer-base and those who are less tech-savvy to realise the wonder, and potential, of digital banking. As of 31 December 2020 we have established 244 SBUs in every province in Sri Lanka, averaging a record breaking LKR 56.3 Bn. in ATMs and LKR 29.0 Bn. in CDMs in transactions monthly. The teller efficiency increased through marketing and cross-selling.



People's Wave is the most revolutionary and the most downloaded finance app in Sri Lanka with nearly one million downloads since its launch in 2018. Integrated to the Bank's core system, the app allows customers to carry out over 50 different banking transactions from the comfort of their homes, without ever having to step into a branch. The app offers many features including balance inquiries of multiple accounts, loans and credit cards, payments, bill payments, transaction history, fund transfers to own or third-party People's Bank or other bank accounts and set future-date transfers and standing orders.

With over 70% of active People's Wave users outside the Western Province, the app has made a significant contribution to the Bank's mission of driving financial inclusivity. On average there are 30,000 monthly People's Wave downloads and the app has executed nearly 800,000 financial transactions for the value of LKR 13 Bn. each month.



This is a specially designed mobile banking application for corporate clients. Businesses can conduct a host of banking services through this facility including authorisation and approval of corporate transactions such as transfers, payments, trade finance simply and securely anytime, anywhere in the world. Businesses can make corporate bill payments to various utility providers as well. This provides great convenience, speed, flexibility and privacy for corporate clients. Since its launch in July 2018, over 5,000 Corporate customers have been registered and nearly 9,000 Corporate users are actively using this module.



People's Web personal was launched in sync with the People's Wave mobile app in May 2018 and consists of advanced features in addition to all the facilities available in People's Wave Mobile app. At the end of the year 2020 over 530,000 customers are registered to the facility. This facility has executed on nearly 60,000 financial transactions for the value of LKR 2.8 Bn. each month.

People's Web Corporate is specially designed internet banking application for corporate clients. Since its launch in July 2018, over 5,000 corporate customers have been registered and nearly 9,000 corporate users are using this module.



People's Wiz Accounts - Digital on boarding of customers is the first ever real-time digital customer on boarding application for any bank in the South East Asia, Africa and the Middle Eastern region. This is a completely paperless process facilitating opening of multiple accounts with multiple services such as online activated debit cards with card-less cash facility, e-statement facility and internet banking services like People's Wave app, signature verification/KYC, and FACTA and risk categorization. People's Wiz Accounts has resulted in time-and-cost savings and also contributed towards a green economy. Since its launch in July 2017, over one million customers have been on boarded through People's Wiz. The facility is rolled out in 348 Branches across the island and planned to rollout in 50 Service Centers in year 2021.

People's Wiz Credit Retail is an advanced retail loans processing system which has replaced the manual system of loans processing. This is a digitalized end to end process which provides applying to disbursement and post disbursement activities.

This supports People's Bank's Green banking vision with requiring minimum usage of Documents and has enabled the Bank to process personal loans within hours delivering an exceptional customer experience. The Facility is rolled out for 100 branches at the end of the year 2020 and is planned to launch at another 100 within the year 2021.

INTELLECTUAL CAPITAL

People's Bank QR payment facility

People's Pay QR introduced by People's Bank in year 2020 as per the guidance given by Central Bank of Sri Lanka. This aims at encouraging small businesses to transit digitally and maintain the momentum that digital banking gained amount citizens and it facilitates fast, secure and low cost digital payments to any merchant, especially small and medium enterprises. At the end of the year 2020, more than 39,000 merchants are registered with People's Bank QR Payment Facility.

Increasing adaptation of our digital channels –



- **Digital customers increased to 1.1 million island-wide**
- **Over 85% of the Bank's conventional banking transactions conducted from digital channels**
- **30,000 monthly average downloads of the People's Wave app**
- **Over 800,000 financial transactions conducted monthly on the People's Wave app**
- **Digital deposit exceeded LKR 172 Bn. as of end December 2020**
- **Average of LKR 6.9 Bn. digital deposits monthly**
- **People's Wiz Retail loan Origination System launched in 100 branches**
- **More than 39,000 merchants are registered with People's Bank QR Payment Facility**

Future outlook

We will continue to strengthen and upgrade our digital infrastructure to deliver increased value to our customers in a digitally enabled and highly automated future. We will drive innovation in products to deliver industry-leading performance to customers.

In order to further simplify the banking experience, we will enable fingerprint bank account opening. In keeping with Government's policy initiative of establishing a "less-cash society" we will launch a "National Transit Card" for ticketing and fare collection in bus and rail transport. This will further propel our citizens to use digital payment mechanisms.

Moreover, the People's Pay wallet app will be launched in 2021. This solution is an open loop payment system which provides payment services via mobile device which eliminates the physical payment involvement. This aims to expedite and streamline the process of sending money electronically by enabling users to send/receive funds or to withdraw cash, make payments to merchant outlets and settle down monthly bills in one go all from comfort of their handheld devices. This digital wallet solution determines the ease of use as well as the ease of access anytime from anywhere.

The RLOS will be launched in 100 more branches increasing the total to 200 in 2021.



HUMAN CAPITAL

People's Bank is one of the largest employers in Sri Lanka, employing over 7,500 individuals from diverse socio-economic backgrounds. The passionate and committed team of employees, have always been key to our success. They deliver exceptional customer experience, create innovative solutions and enable the Bank to achieve its strategic objectives. We support our people's safety, health and wellbeing, and professional development, and actively reward their performance.

Our strength has always been our Human Capital of over 7,500 employees. In an year faced with an unprecedented external challenge of a global pandemic, the human resources (HR) team continued to provide leadership in effective employee communications, continuous employee engagement and delivery of HR services for smooth functioning of the Bank. We also played a pivotal role in establishing health and safety protocols for our employees as per our business continuity plan and Government regulations and adopted new measures to adapt to the new dynamics presented following the pandemic.

Demonstrating tremendous resilience over the past year, our employees went above and beyond to serve the Nation and support our customers, communities and each other despite the difficult circumstances. Through their commitment and dedication, we were able to keep 70% of our branches open and serve our customers even through the lockdown curfews.

Our approach

Our success has been underpinned by our team of highly talented and dedicated employees. We have always focused on attracting, developing and retaining a top talent as one of the preferred employers in Sri Lanka. We strive to add value to our core HR functions including learning and development, employee engagement, talent acquisition and compensation and benefits. Even through the pandemic, we continued to add value with the same vigour to deliver an outstanding value proposition to our employees.

In addition to mobilising resources to support the changing needs of our customers and business during the COVID-19 pandemic, our focus for the year was on procuring a fully pledged Human Resource Management (HRM) system to enhance the HR functions of the Bank.



17th Annual Inter Branch/Department Quiz programme



Celebration of Thai Pongal festival

HUMAN CAPITAL

→ KEY HIGHLIGHTS

Team profile

- ▶ 7,692 Employees
- ▶ 38.7% Male
- ▶ 61.3% Female
- ▶ 98.1% Retention

Productivity

- ▶ LKR 1.8 Mn. profit per employee

Diversity

- ▶ 54.7% female at assistant manager level and above

→ MATERIAL THEMES

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

→ CHALLENGES

- ▶ The outbreak of the COVID-19 pandemic hampered the implementation of the strategic plans for the year.
- ▶ Employees had to change their way of working and adjust to the new normal.
- ▶ Had to function with a lesser number of staff in office by working according to a roster.

→ OUR IMPACT



Poverty alleviation through creation of employment opportunities



Supporting employee diversity and inclusion



Uplifting the lives of our employees through employee benefits



Building employee capacity and knowledge development through training and development

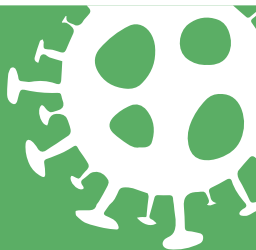
→ VALUE CREATED

LKR 19.7 Bn. distributed as employee benefits

29 promotions were effected during the year.

HUMAN CAPITAL

Supporting our employees through COVID-19



We deployed extensive measures throughout the pandemic to keep our premises safe and to support the well-being of our employees. Some of the measures include:

- ▶ Granting special leave to employees in the high-risk category
- ▶ Providing transport allowances
- ▶ Providing staff transport facilities in selected routes
- ▶ Distribution of hand sanitisers, face masks and personal protective equipment (PPE)
- ▶ Supporting employees to transition to remote work arrangements, including access to expertise on remote work
- ▶ Facilitating employees to work on a roster basis
- ▶ Conducting PCR tests of employees where necessary at the expense of the Bank medical scheme
- ▶ Enabling employees to encash their 14 days of casual and medical leave
- ▶ No salary deductions
- ▶ No downsizing of our staff
- ▶ All employees were given special COVID-19 incentives
- ▶ The collection of staff loans were delayed

Capital linkages



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



- ▶ Employees contributing to a green environment by engaging in sustainability initiatives
- ▶ Constructing green buildings creates conducive work environments that contributes to a green environment



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



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



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

Our team

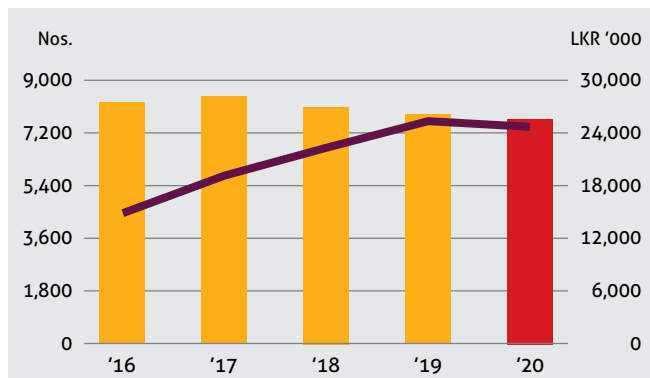
The total staff strength stood at 7,692 as of 31 December 2020. Our retention rate was 98.1% reflecting the strong trust and loyalty that our employees have placed on us. Our workforce is diverse and inclusive reflecting the diversity of our customers representing different ethnicities from all geographical regions. Following is a detailed statistical representation of our workforce in 2020:

Our human resource statistics

Male employees		Female employees		Total employees		Profit per employee (LKR '000)		Revenue per employee (LKR '000)	
2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
3,367	3,402	4,882	5,052	8,249	8,454	1,818	2,159	14,804	19,182
2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
3,184	3,058	4,909	4,778	8,093	7,836	2,112	1,650	22,400	25,489
2020		2020		2020		2020		2020	
2,979		4,713		7,692		1,843		24,829	

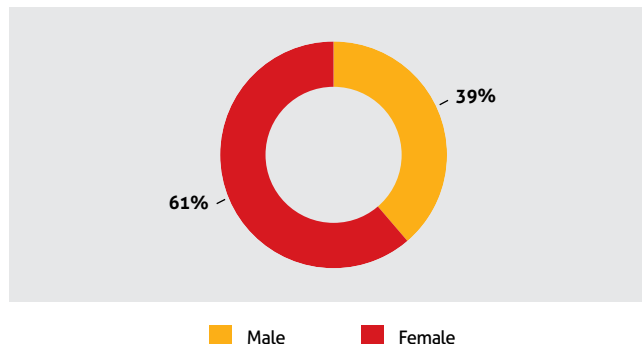
HUMAN CAPITAL

TOTAL NUMBER OF EMPLOYEES AND REVENUE PER EMPLOYEE



■ Total employees (Nos.) ■ Revenue per employee (LKR '000)

TOTAL EMPLOYEES BY GENDER



■ Male ■ Female

GRI 102-8

Total workforce by employment contract and gender

	2020			2019		
	Male Nos.	Female Nos.	Total Nos.	Male Nos.	Female Nos.	Total Nos.
Permanent staff	2,868	4,684	7,552	2,901	4,659	7,560
Contract staff	111	29	140	157	119	276
Total	2,979	4,713	7,692	3,058	4,778	7,836

GRI 405-1

Total workforce by employment category and gender

Employment category	2020					2019				
	Male Nos.	Female Nos.	Total Nos.	Male %	Female %	Male Nos.	Female Nos.	Total Nos.	Male %	Female %
Corporate management	9	6	15	0.12	0.08	13	7	20	0.17	0.09
Executive management	13	15	28	0.17	0.2	12	10	22	0.15	0.13
Officers (3-III-Grade 1)	1,400	2,557	3,957	18.20	33.24	1,144	2,131	3,275	14.6	27.19
Staff assistant grade	609	1,484	2,093	7.92	19.29	892	1,881	2,773	11.38	24
Other categories	856	630	1,486	11.13	8.19	867	638	1,505	11.06	8.14
Management trainees	1	-	1	0.01	-	2	3	5	0.03	0.04
Customer service assistants	-	1	1	-	0.01	25	68	93	0.32	0.87
Other contracted employees	91	20	111	1.18	0.26	103	40	143	1.31	0.51
Total	2,979	4,713	7,692	38.73	61.27	3,058	4,778	7,836	39.03	60.97

HUMAN CAPITAL

Total workforce – Department wise for 2020

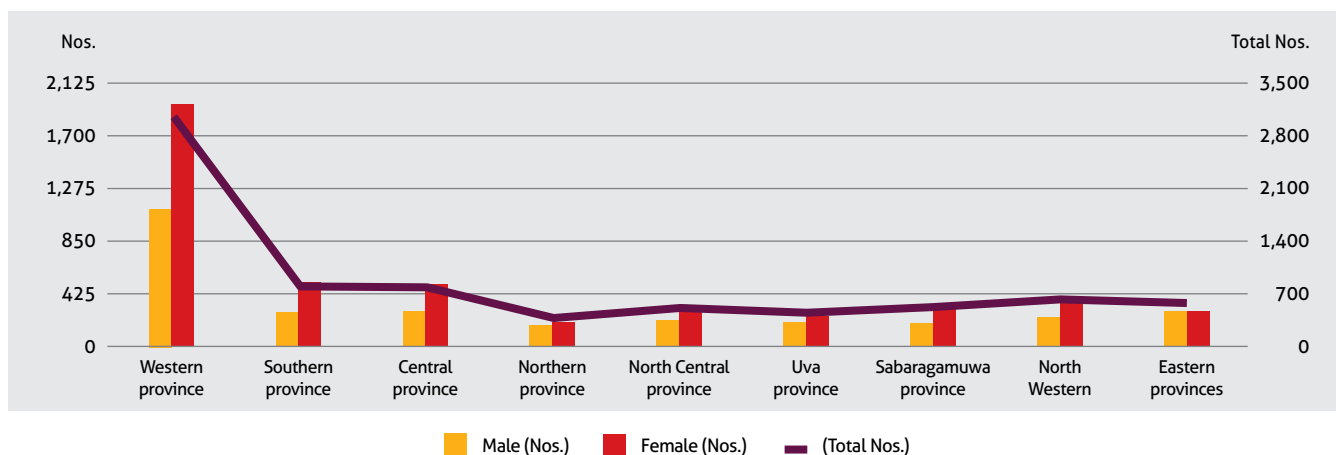
	Number of employees		
	Permanent	Contract	Total
Branches	5,482	66	5,548
RHO	839	22	861
Treasury and PDU	35	1	36
Corporate and OSBU	161	6	167
Overseas customer services	74	2	76
PCC	55	8	63
Head office	906	35	941
Total	7,552	140	7,692

GRI 102-8

Total workforce by geographic distribution and gender for 2020

Province	Male		Female		Total		Total	Total
	2020 Nos.	2019 Nos.	2020 Nos.	2019 Nos.	2020 Nos.	2019 Nos.	2020 %	2019 %
	Western	1,112	1,150	1,955	1,970	3,067	3,120	39.9
Southern	278	283	518	531	796	814	10.3	10.4
Central	284	294	501	516	785	810	10.2	10.3
Northern	174	221	200	297	374	518	4.9	6.6
North Central	214	182	295	207	509	389	6.6	4.9
Uva	199	202	246	249	445	451	5.8	5.7
Sabaragamuwa	191	192	329	339	520	531	6.8	6.8
North Western	238	248	385	384	623	632	8.1	8.1
Eastern	289	286	284	285	573	571	7.4	7.3
Total	2,979	3,058	4,713	4,778	7,692	7,836	100	100

TOTAL EMPLOYEES BY GEOGRAPHIC DISTRIBUTION AND GENDER



HUMAN CAPITAL

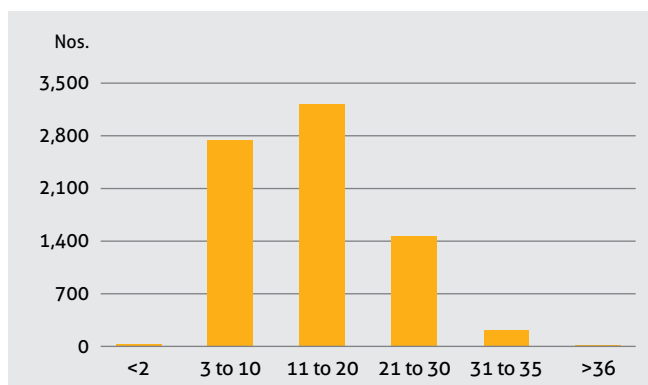
Total workforce by age and gender

Age	2020			2019		
	Male	Female	Total	Male	Female	Total
18 - 25 years	30	6	36	51	12	63
26 - 45 years	1,980	3,887	5,867	2,044	3,938	5,982
46 - 55 years	781	668	1,449	769	689	1,458
56 > years	188	152	340	194	139	333
Total	2,979	4,713	7,692	3,058	4,778	7,836

Total workforce by employment category and years of service for 2020

Category	Number of years of service						Total
	<2	3-10	11-20	21-30	31-35	>36	
Corporate management	1	2	1	2	8	1	15
Executive management	2		6	7	13	-	28
Officers (3-III-Grade 1)	8	566	2,190	994	182	17	3,957
Staff assistant grade	-	1,020	995	72	6	-	2,093
Other categories	-	1,060	21	388	14	3	1,486
Management trainees	-	1	-	-	-	-	1
Customer service assistants	-	1	-	-	-	-	1
Other contracted employees	26	85	-	-	-	-	111
Total	37	2,735	3,213	1,463	223	21	7,692

TOTAL EMPLOYEES BY YEARS OF SERVICE



GRI 202-2

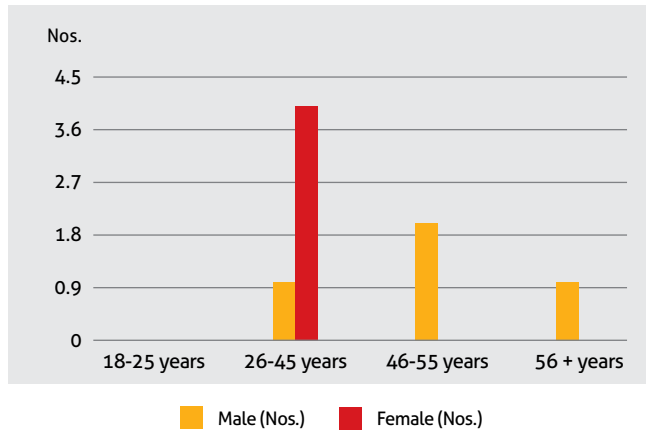
Recruitment

Our strategy is to have a strong pipeline of future talent and diverse experience for our ongoing success. All recruitments are done in conformance to the regulations applicable to Government institutions, and in accordance to our formal recruitment policy. The recruitment process includes a competency testing and a formal interview process. We always recruit qualified individuals who have potential for advancement and the aptitude to handle increased responsibility so that they can be an asset to the Bank. Majority of our recruitments are done at entry-level and our management trainees and customer service assistants are recruited on a regular basis. They are groomed as per the Bank's successions plan to take on managerial positions in the future. Bank's promotion policy, enables customer service assistants to rise up to the rank of officer grade. We give prominence to recruiting IT graduates, which is vital to drive forward our digitalisation strategy. During the year we did not recruit any management trainees or customer service assistants.

HUMAN CAPITAL

However, as per our human resource plan, we recruited a specialist to develop our cards business and five assistant law officers to strengthen the legal aspects of our regional head offices. All recruitments for Bank's Senior Management positions are citizens of Sri Lanka.

AGE AND GENDER ANALYSIS OF NEW RECRUITS



GRI 401-1

Recruitment by age group and gender for 2020

Age category	Male Numbers	Female Numbers	Total Numbers
18-25 years	–	–	–
26-45 years	1	4	5
46-55 years	2	–	2
56+ years	1	–	1
Total	4	4	8

New recruitments by region and gender for 2020

Region	Male	Female	Total	Male %	Female %
Anuradhapura	–	–	–	–	–
Badulla	1	–	1	100.0	–
Batticaloa	–	–	–	–	–
Colombo	3	2	5	60.0	40.0
Gampaha	–	–	–	–	–
Galle	–	–	–	–	–
Jaffna	–	–	–	–	–
Kandy	–	–	–	–	–
Kalutara	–	–	–	–	–
Kurunegala	–	–	–	–	–
Kegalle	–	–	–	–	–
Matara	–	–	–	–	–
Matale	–	–	–	–	–
Nuwara Eliya	–	1	1	–	100.0
Ratnapura	–	–	–	–	–
Ampara	–	–	–	–	–
Trincomalee	–	1	1	–	100.0
Polonnaruwa	–	–	–	–	–
Monaragala	–	–	–	–	–
Puttalam	–	–	–	–	–
Wanni	–	–	–	–	–
Hambantota	–	–	–	–	–
Total	4	4	8	50	50

GRI 404-1, 404-2

Employee talent management

Training and development

We continued to invest in the capabilities of our people through the provision of training and development programmes. Almost 96,435 hours of learning were delivered in 2020, investing over LKR 31.9 Mn. to train our people to ensure they have the capabilities to stay a step ahead.

Training is conducted according to the Bank's training calendar, prepared annually based on a training needs survey conducted covering employees affiliated to all categories. The training hours and resources are allocated based on skills gap of employees and cost structures of the Bank. To ascertain the effectiveness of the

HUMAN CAPITAL

training programme, a post implementation evaluation is conducted in the form of employee feedback after every training programme. Our strategy is to enhance the knowledge and skills of all employees within a specific period either through internal, external, on-the-job or foreign training programmes. During the year, we launched the managerial development program to develop better managers who can engage staff and enhance team performance. The plan is to enhance their capacity to take on more advanced leadership roles and accelerate their readiness for succession to senior managerial positions in the future.

As a result of the restrictions in conducting training programmes physically due to the global pandemic, we launched our first webinar series for law officers in collaboration with the Bar Association of Sri Lanka. The main objective was to upgrade and enhance their knowledge on emerging laws on data protection, cybersecurity, recent developments of law relating to money recovery and banking.

A series of motivational programmes were conducted regionally to keep our employees engaged. Additionally, 18 employees were given the opportunity to participate in foreign training programmes, online.

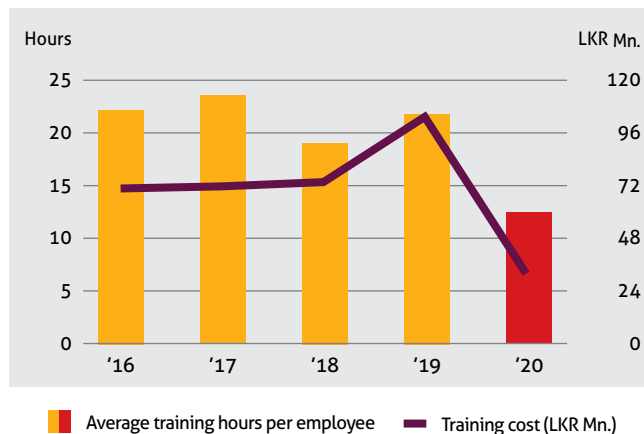
In tandem with our digitalisation strategy, we continued to upgrade the skills and provide new knowledge on digital environments. To this extent, we conducted training sessions on information security policy of the Bank to provide a greater level of protection by ensuring employees are well aware of internal information security policies, procedures and understand basic security controls and best practices.

An awareness programme was conducted for our law officers to expand their knowledge on digital platform and the Retail Loan Origination System (RLOS).

Employee training statistics

	2020	2019	2018	2017	2016
Training cost (LKR Mn.)	32	104	74	72	71
Training hours	96,435	171,045	161,378	199,956	183,460
Average training hours per employee	12.5	21.83	19.07	23.6	22.2
Number of hours on digital training	16,640	34,480	26,480	-	-

AVERAGE TRAINING HOURS PER EMPLOYEE AND TRAINING COST



Training programmes in 2020

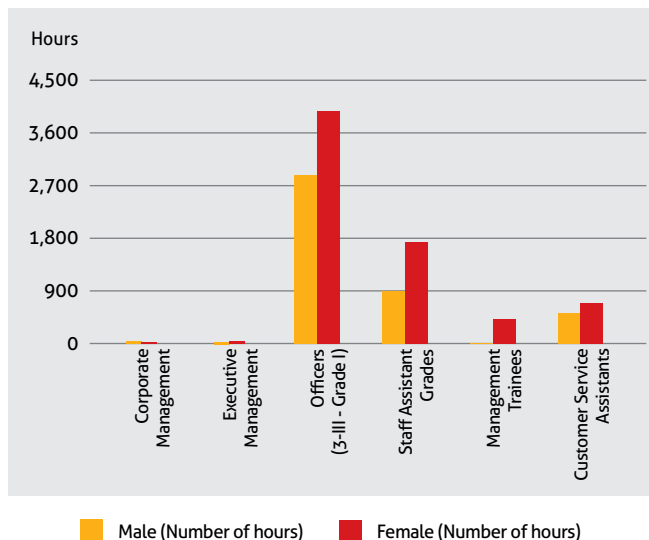
Type of training	Number of programmes	Number of participants	Training hours
Internal training programmes	219	10,956	85,360
External training programmes	52	298	10,251
Foreign training	2	18	824
Total	273	11,272	96,435

Training hours by employment category and gender for 2020

Employment category	Number of hours	
	Male	Female
Corporate management	47	24
Executive management	39	48
Officers (3-III - Grade 1)	2,873	3,968
Staff assistant grades	890	1,738
Management trainees	15	420
Customer service assistants	525	685

HUMAN CAPITAL

TRAINING HOURS BY EMPLOYMENT CATEGORY AND GENDER



GRI 404-3

Performance appraisal

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

Promotions and transfers

We conduct all transfers and promotions in a transparent manner in accordance to formal promotion and transfer policy of the Bank. An attractive promotion scheme has been instituted for each grade. Employees are encouraged to take on expanded roles by taking on transfer or promotion opportunities that open up from time to time. Up to senior manager (Grade 11) level in the main banking scheme all promotions are conducted through an exam and an interview process. The promotions of executive, corporate management, and other key management positions are conducted in accordance to a formal procedure through an interview conducted by the Board of Directors.

In general, we conduct promotions for most of the grades, and for senior management level as and when the vacancies occur. Transfers are effected within the region and outside the regions. An employee can appeal to the Appeal Committee established under the transfer policy seeking redress, if he/she is dissatisfied with a transfer.

During the year under review, we promoted nine Assistant General Managers (AGMs), six Chief Managers and the Deputy Chief Law Officer equivalent to the AGM grade.

GRI 405-1

Diversity and equal opportunity

We believe a culture of inclusion and diversity is essential to drive innovation and enable all employees to be their best. We ensure all our employees are treated fairly and equitably in a conducive environment. Our workforce is diverse in terms of gender, ethnicity, race, faith, and age, and we welcome and fully consider all applications irrespective of gender, race, ethnicity, religion, age, or disability. Our support to diversity and gender parity is reflected through our stance on equal opportunity, anti-sexual harassment and a dedicated grievance handling mechanism instituted in the Bank. We continue to have one of the highest female representation of 61.3% in the banking industry of Sri Lanka. The female representation at management and senior management levels is 48.8%.

GRI 405-2

Ratio of basic salary and remuneration of women to men

We have continued to maintain the ratio of basic salary and remuneration of women to men by employment category and significant locations of operation at our Bank as 1:1. There is no gender bias in our Bank and women are given equal treatment as men. However, this ratio may be changed different service periods of employees in the Bank and at a particular salary grade.

Employee category	Male	Female
Corporate management	1	0.95
Executive management	1	1.00
Officers (3-III – Grade 1)	1	0.95
Staff assistance	1	1.03
Other	1	0.98

HUMAN CAPITAL

GRI 401-3

Maternity leave

483 employees took maternity leave in 2020. Our return to work rate and retention amounted to an impressive 100% for the past 6 years.

	2020	2019	2018	2017	2016
Number of employees entitled to maternity leave	4,713	4,778	4,893	4,611	3,690
Number of employees who took maternity leave	483	510	517	230	536
Number of employees who returned to work after maternity leave	483	510	517	230	536
Returned to work (%)	100	100	100	100	100

GRI 406-1

Non-discrimination

We are committed to fostering a workplace that is free from physical and verbal harassment and discrimination on the basis of race, religion, gender, age, or social status. Following a policy of non-discrimination on any of the above criteria we ensure employee recruitment, reward and recognition, and promotions are free from any form of discrimination. Our non-discriminatory culture is showcased by the fact that we have the highest number of female employees in the banking industry. During the year under review, there were no incidents of discrimination reported in our Bank.

GRI 403-1, 403-2

Occupational health and safety

We have a comprehensive health and safety policy to ensure a hazard free environment to all employees. Following the outbreak of COVID-19 we have further strengthened safety measures, promoting a culture of safety amongst employees, improving hygiene practices across the network, raising employee awareness, and facilitating remote working arrangements. We have carried out PCR testing at the expense of the Bank on selected employees when necessary. We have also strengthened the disaster recovery plan of each department. There were no employee fatalities reported in 2020.

Expenses incurred in relation to health and safety in 2020

Health and safety expense	LKR Mn.
Medical expenses	1,627.90
Fire and safety	132.10
COVID-19 safety protocols	88.20
Total	1,848.20

Employee satisfaction

Staff engagement survey

We conduct an employee engagement survey annually to measure the success of our engagement activities and gauge the level of employee motivation and willingness to performing their tasks to achieve the Bank's strategic objectives.

In 2020, 400 of our employees participated in the survey and responses were received from 254 employees. The 2020 results highlighted a strong belief in the Bank's Vision and Values and their willingness to perform.

Staff engagement survey participants - 2020

Designation	Male	Female	Total
Deputy General Manager	1	1	2
Assistant General Manager	4	0	4
Chief Manager	4	1	5
Senior Manager	7	10	17
Manager	33	42	75
Deputy Manager	32	46	78
Assistant Manager	37	49	86
Staff Assistant	26	28	54
Office Assistant and below	43	16	59
Secretary and allied grade	1	19	20
Total	188	212	400

HUMAN CAPITAL

Succession planning

We continued to invest in building our next generation of leaders. Launching the management development programme during the year was a key initiative to strengthen leadership capabilities of our management team. A total of 50 managers were developed during the year, which is essential to maintain our leadership position within the banking industry.

GRI 401-2

Remuneration and benefits

Adopting an equal pay policy towards male and female employees, we maintain an impartial remuneration structure, offering our employees fair, competitive, and attractive packages. To keep employees engaged and motivated we offer performance-based rewards and other monetary and non-monetary benefits. Our employees are eligible for gratuity, Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF) payments in line with the relevant laws and regulations. The Bank made a total contribution of LKR 291.4 Mn. to the ETF and LKR 1,165.3 Mn. to the EPF for the financial year 2020.

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

Promoting employee well-being and staff engagement

Managing stress at work is essential to enable employees to be healthy, avoid staff absence and potentially a loss of income. To mitigate this risk, we have measures in place to promote a healthy work culture and help employees to lead healthy lifestyles and enhance their standing at work. To enhance the physical fitness of our employees we offer yoga exercises and a fully equipped gymnasium. The state-of-the-art library at the head office provides opportunities for our employees to expand their knowledge. We also encourage staff members to obtain higher qualifications by way of reimbursing the exam fees on successful completion of an MBA and professional subscriptions. Opportunities are provided for employees to participate in staff engagement activities organised through the Bank's Sports Club, Art Club, and other such organisations.

During the year, we enabled our staff to work from home and organised a conference in Kandy for corporate and executive management including regional managers. This was a two-day programme held in a hotel, where corporate executives and regional managers participated.

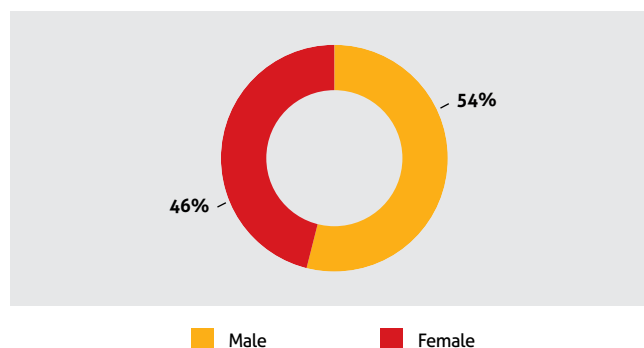
Due to the outbreak of the pandemic, we could not organise the annual staff engagement activities during the year in adherence to the Government's safety regulations.

GRI 401-1

Employee turnover

We have maintained a low staff turnover, with a total of 22 employees relinquishing employment during the financial year 2020.

EMPLOYEE TURNOVER BY GENDER



Employee turnover by age group and gender - 2020

Age category	Male	Female	Total
18-25 years	-	-	-
26-35 years	8	17	25
36-45 years	3	7	10
46-55 years	13	3	16
56+ years	58	43	101
Total	82	70	152

HUMAN CAPITAL

Employee turnover by age group gender and employment category - 2020

Employment category	18-25 years		26-35 years		36-45 years		46-55 years		56 years and above	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Corporate management	-	-	-	-	-	-	1	-	3	-
Executive management	-	-	-	-	-	-	-	-	2	2
Officers (3-III – Grade 1)	-	-	4	5	2	3	8	1	32	32
Staff assistant grade	-	-	2	8	-	2	-	-	4	1
Other categories	-	-	2	4	1	2	4	2	14	8
Management trainees	-	-	-	-	-	-	-	-	-	-
Customer service assistants	-	-	-	-	-	-	-	-	-	-
Other contracted employees	-	-	-	-	-	-	-	-	3	-
Total	-	-	8	17	3	7	13	3	58	43

Employee turnover by region and gender

Region	Male	Female	Total	Male %	Female %
Ampara	-	1	1	-	100
Anuradhapura	3	-	3	100	-
Badulla	2	1	3	66.67	33.33
Batticaloa	2	-	2	100	-
Colombo	8	13	21	38.10	61.90
Galle	2	2	4	50	50
Gampaha	7	5	12	58.33	41.67
Hambantota	2	1	3	66.67	33.33
Jaffna	6	-	6	100	-
Kalutara	2	4	6	33.33	66.67
Kandy	5	9	14	35.71	64.29
Kegalle	1	4	5	20	80
Kurunegala	1	2	3	33.33	66.67
Matale	-	1	1	-	100
Matara	2	5	7	28.57	71.43
Monaragala	3	-	3	100	-
Nuwara Eliya	-	1	1	-	100
Polonnaruwa	1	-	1	100	-
Puttalam	2	1	3	66.67	33.33
Ratnapura	2	1	3	66.67	33.33
Wanni	1	2	3	33.33	66.67
Trincomalee	1	1	2	50	50
Head Office	29	16	45	64.44	35.56
Total	82	70	152	53.95	46.05

GRI 402-1

Employee communication, ethics and integrity

Employee communication

We have developed a range of channels to communicate and engage with our employees and keep them informed about matters affecting or of interest to them, and also to provide opportunities for feedback and dialogue. We also encourage employees to participate and engage through both formal and informal channels and strive to ensure internal communication remain meaningful and impactful. Employees are able to discuss key developments and business performance and to contribute their views through team briefings and employee forums.

HUMAN CAPITAL

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

GRI 402-5

Minimum notice period for operational changes

We provide employees adequate notice of any operational changes and their possible impacts. This helps to reduce any adverse impact on staff morale due to such changes. The minimum notice periods to operational changes are:

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

Grievance handling

We have in place a Board approved mechanism to handle grievances, which arise due to difficulties they face as a part of their working relationship. A course of action is in place for employees to forward complaints and to ensure they are treated fairly, reasonably, and in a timely manner.

A mechanism of redress is available for employee concerns/grievances by presenting them to the CEO/General Manager. The CEO/General Manager redresses the grievance/concern based on the outcome of the review of the committee consisting of members of the Corporate Management. During 2020 corrective actions were taken for a total of 10 incidents of grievances, which were presented.

GRI 102-41

Collective bargaining

The Bank has formal collective bargaining agreements with employee unions and maintains an open door policy for employees to voice their grievances. Employees up to the grade of chief manager are covered by collective agreements, which is over 99% of the Bank's employees.

Employee union	Number of employees
The Ceylon Bank Employees' Union	5,656
Officers' Union	223
Sri Lanka Nidahas Banku Sevaka Sangamaya	51
Jathika Sevaka Sangamaya	230
All Ceylon Bank Employees' Union	35
Pragathi Bank Employee's Union	857
Total	7,052

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

Anti-corruption

We nurture a stringent anti-corruption culture within our Bank. The Internal Audit Department, Investigations and Inquiries Department and the Risk Management Unit facilitate this. All employees are trained on preventing and averting corruption and fraudulent behaviour by the Investigations and Inquiries Department and the Internal Audit Department.

We have a Board approved anti-corruption policy, which is communicated to all employees within the Bank. Adopting a zero tolerance approach to bribery and corruption, we take strict disciplinary action in the event of a breach. During the year, 2,588 employees were given 19,804 hours of training on anti-corruption.

HUMAN CAPITAL

	Number	%
Total number and percentage of Governance body members that the organisation's anti-corruption policies and procedures have been communicated to	All	100
Total number and percentage of employees that the organisation's anti-corruption policies and procedures have been communicated to	All	100
Total number and percentage of employees that have received training on anti-corruption	2,588	33.6
Total number and nature of confirmed incidents of corruption/misconducts	113	N/A
Total number of confirmed incidents in which employees were dismissed or disciplined for corruption/misconducts	448	N/A

We have established the following policies to support our employees to conduct themselves with integrity and adhere to highest standards.

- **Code of Corporate Governance** – A formal document containing the values and conduct of the Bank that sets the tone for all employees to ensure ethical behaviour and integrity within the Bank. This helps to build an environment of trust, transparency and accountability to foster long-term investment, financial stability and business integrity.
- **Code of Conduct for Employees** – All employees of the Bank are expected to abide by the Code of Conduct and are required to sign the Code upon being employed by the Bank. This enables to link the Bank's mission, values, and principles with standards of professional conduct.
- **Disciplinary Code** – A formal document that defines what is construed as misconduct and sets out the formal disciplinary procedure applicable in such instances to adopt a progressive approach in the workplace.
- **Whistle-blowing Policy** – A further measure against misconduct and corruption reflecting the Bank's zero tolerance policy towards corruption. The Bank has appointed a Director to review such complaints whilst guaranteeing anonymity to safeguard the employee. An employee can report the following issues to the immediate supervisor or directly to the Board Audit Committee.
 - i. Breach of the Disciplinary Code
 - ii. Failure to comply with legal/regulatory obligation
 - iii. Miscarriage of justice
 - iv. Financial malpractices

Future outlook

As operations return to normalcy gradually in the post-COVID-19 era, we will recommence our initiatives and programmes with a focus on management and leadership development. We will use the expertise of a HR consultant to develop and improve our HR functions further.

The implementation of the new HRM system in the ensuing year would enhance employee communication within the Bank and elevate internal employee experience.

We will implement the procedure in dealing with the COVID-19 pandemic and safeguard our employees for the next foreseeable future.



**The honour of being recognised is second
only to our pride in empowering our
customers**

People's Bank has been ranked among the Top 10 Most Admired Companies in Sri Lanka by the International Chamber of Commerce, Sri Lanka (ICCSL) together with the Chartered Institute of Management Accountants (CIMA).



SOCIAL AND RELATIONSHIP CAPITAL

We create and deliver value by nurturing long-standing, mutually beneficial relationships with our stakeholders. Over the decades these relationships have secured our social and legal license to operate and contributed to our strategy formulation and decision-making process. This section outlines our efforts in fostering and maintaining our affiliations with our customers, business partners, investors, and communities.

➔ CUSTOMER CAPITAL

Our approach

Over 14 million customers, we serve more than half the population of Sri Lanka across the Nation. We have always nurtured a culture of putting the customers first, which has helped us to thrive as a Bank over the decades. By investing in our people, processes and digital capabilities, we continue to make it easier for our customers to do

business with us. By expanding our digital channels, we give customers a wide option to decide when, where, and how they want to meet us. By combining our financial acumen with deep understanding of our customer needs, we deliver industry-leading innovative products. By delivering our services with a personal touch, we strive to meet and exceed customer expectations proactively. It is our investment in customer relationships, innovation, digitalisation, and operational and service excellence that continue to differentiate us.

➔ KEY HIGHLIGHTS

- ▶ Over 14 million customers across the Nation
- ▶ Close to 600,000 new customers onboarded
- ▶ Close to 2,000 customer touchpoints

➔ MATERIAL THEMES

- ▶ Customer experience
- ▶ Operational efficiency
- ▶ Digital leadership
- ▶ Compliance
- ▶ Responsible lending
- ▶ Customer access
- ▶ Customer health and safety

➔ CHALLENGES

- ▶ More customers had to be onboarded to digital channels following the COVID-19 pandemic
- ▶ Had to serve customers with a lesser number of staff in office by working according to a roster
- ▶ Safety of the customers during the pandemic

➔ OUR IMPACT



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



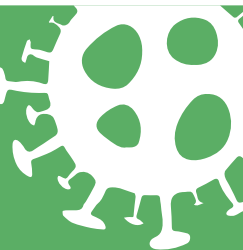
Promoted and empowered social and economic inclusion of all customers

➔ VALUE CREATED

LKR 39 Bn. loans were disbursed via digital channels
70% of rural customers have migrated to self-banking channels

SOCIAL AND RELATIONSHIP CAPITAL

Value delivered using Customers through COVID-19



We extended unparalleled support to our customers during the COVID-19 pandemic

- ▶ During the lockdown, over 70% of branches and all Self-Banking Units remained operational, following all the safety protocols.
- ▶ Ten fully equipped Mobile Banking Units were deployed to provide services to customers at their doorsteps. These Units covered over 1,000 remote locations dispensing cash withdrawals of LKR 643 Mn. during the lockdown.
- ▶ Took necessary steps to provide all the concessions to customers declared in the gazette by the Central Bank of Sri Lanka (CBSL).
- ▶ Debt moratoriums were extended close to 400,000 retail customers and over 21,000 business customers.
- ▶ Working capital loans were granted to nearly 9,000 businesses totalling over LKR 12.0 Bn. from the Central Bank refinance scheme.
- ▶ To provide more convenience to customers, the ATM network was extended to as many as over 4,000 ATMs through a partnership with LankaPay network.
- ▶ Facilitated salary and pension payments, including Samurdhi payments, totalling over LKR 800 Bn. via our island wide branch network.
- ▶ Facilitated repayments for the benefit of depositors of troubled finance companies for and on behalf of the CBSL with disbursements to date exceeding LKR 19 Bn.
- ▶ A series of awareness campaigns were conducted on social media for the well-being of the customers.

Capital Linkages



- ▶ Investment in digitalisation, training and development and process improvement to enhance customer service reduces financial capital
- ▶ Enhanced customer experience helps to build financial capital



- ▶ Customers using digital channels have contributed to less paper consumption and reduced carbon footprint
- ▶ Constructing green buildings to serve customers contributes to a green environment



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

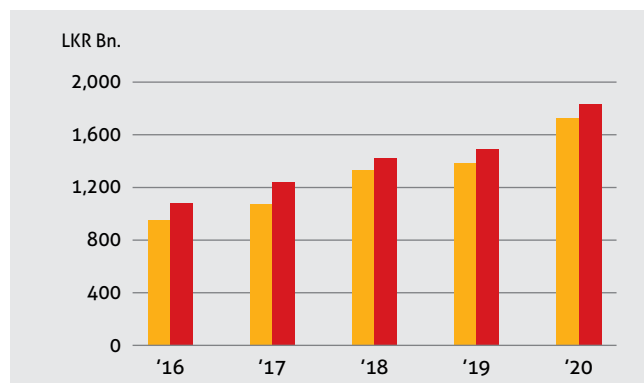


- ▶ Innovation helps to launch industry-leading banking solutions to fulfil customer needs
- ▶ Strong governance and business ethics helps to build customer trust



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

VALUE OF DEPOSITS AND ADVANCES



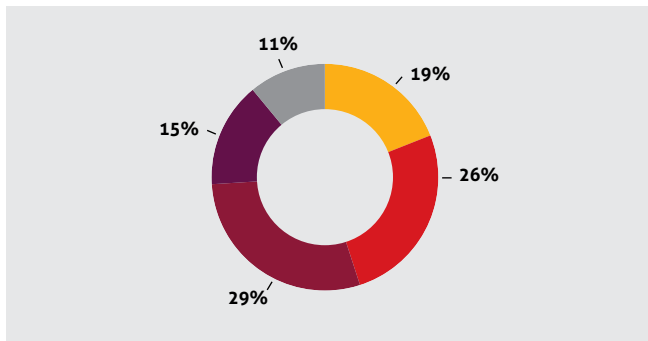
■ Total advances (LKR Bn.) ■ Total deposits (LKR Bn.)

SOCIAL AND RELATIONSHIP CAPITAL

Customer profile

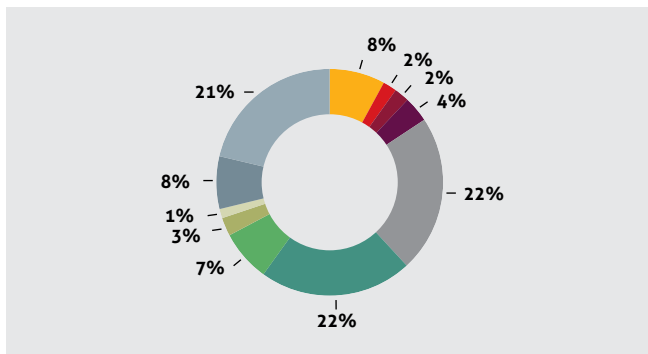
Our customer base has grown to over 14 million of which approximately 74% of live outside the Western Province. We reach our diverse customer base through our extensive island-wide branch network and digital channels. The steady increase in customer base over the six decades is a testament to the strong customer trust and loyalty towards the Bank. During the financial year 2020, Close to 600,000 new customers were added to our customer base.

CUSTOMERS' AGE PROFILE - 2020



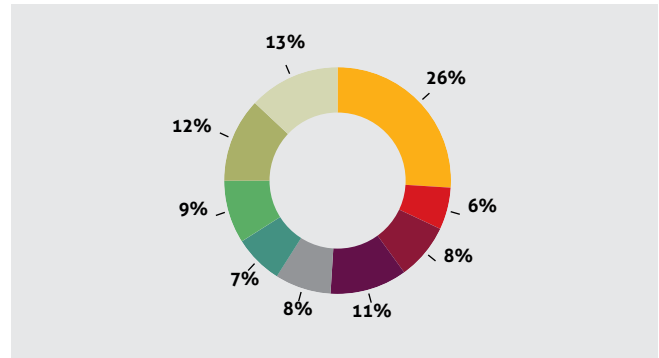
- 10 to 15
- 15 to 25
- 25 to 45
- 45 to 60
- Over 60

CUSTOMERS BASED ON INDUSTRY – 2020



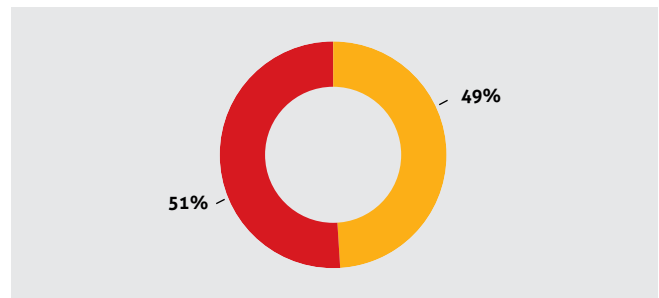
- Agriculture, forestry and fishing
- Manufacturing
- Tourism
- Transport and storage
- Construction
- Infrastructure development
- Wholesale and retail trade
- Professional, scientific and technical activities
- Financial services
- Consumption
- Others

CUSTOMERS BASED ON GEOGRAPHICAL DISPERSION



- Western province
- Northern province
- North Central province
- Southern province
- Eastern province
- Uva province
- Sabaragamuwa province
- North Western province
- Central province

CUSTOMERS BASED ON GENDER



- Male
- Female

GRI 102-2, 206-1






Our product and service offering

Innovating solutions to meet the changing customer needs by understanding their requirements is core to what we do. During 2020, we helped our customers to transition to a more efficient and sustainable economy and continued to innovate to improve their banking experience. Our range of solutions are inclusive and dynamic, catering to every life stage of our diverse customer base. Our products and services are enriched by our unique blend of experiences, customer centricity and our exposure to technological advancements. They are priced in line with market trends and the country's monetary policy. We do not engage in anti-competitive, anti-trust and monopoly practices. No fines or penalties were incurred by us during the reporting year.

SOCIAL AND RELATIONSHIP CAPITAL

Our product portfolio spans advances, deposits and other products as shown below:

Our products and services

 <p>RETAIL BANKING</p>	<p>DEPOSITS PRODUCTS</p> <ol style="list-style-type: none"> i. Current accounts ii. Savings <ul style="list-style-type: none"> ▶ <i>Isuru Udana</i> ▶ <i>Sisu Udana</i> ▶ Yes ▶ <i>Vanitha Vasana</i> 	<ul style="list-style-type: none"> ▶ <i>Jana Jaya</i> ▶ <i>Asuenna</i> ▶ <i>Parinatha</i> ▶ People's Relax ▶ Normal Savings <ol style="list-style-type: none"> iii. Fixed Deposits iv. Call Deposits 	<ol style="list-style-type: none"> v. Foreign Currency Deposits <p>ADVANCES</p> <ol style="list-style-type: none"> i. Personal Loans ii. Term Loans iii. Housing Loans iv. Pawning 	<p>OTHER</p> <ol style="list-style-type: none"> i. Credit/Debit Cards ii. Gift vouchers iii. Mobile Banking/SMS Banking iv. Internet Banking
 <p>ENTERPRISE BANKING</p>	<ol style="list-style-type: none"> i. Current Accounts ii. Savings Accounts iii. Fixed Deposits iv. Overdrafts v. Term Loans 	<ol style="list-style-type: none"> vi. SME Loans vii. Development and Microfinance Loans viii. Trade Finance 		
 <p>WHOLESALE BANKING</p>	<ol style="list-style-type: none"> i. Current Accounts ii. Savings Accounts iii. Fixed Deposits iv. Overdrafts v. Term Loans 	<ol style="list-style-type: none"> vi. Trade Finance <ul style="list-style-type: none"> ▶ Import/Export Financing ▶ Shipping and Bank Guarantees 	<ul style="list-style-type: none"> ▶ Facilities for International Trade Payments (Letters of Credit, Acceptances) 	
 <p>TREASURY AND INVESTMENT BANKING</p>	<ol style="list-style-type: none"> i. Money Market Activities ii. Trading in Government Securities iii. Repurchase Transactions on Government Securities 	<ol style="list-style-type: none"> iv. Foreign Exchange Transactions v. Derivative Transactions (Forward Exchange Contracts, FX Swaps) 	<ol style="list-style-type: none"> vi. Investment Banking Debt Structuring, Advisory Services, Trustee Services 	
 <p>INTERNATIONAL OPERATIONS</p>	<ol style="list-style-type: none"> i. Trade Services ii. Overseas Customer Services iii. Foreign Currency Remittances 	<ol style="list-style-type: none"> iv. Foreign Currency Deposits v. International Payment and Settlement Services 		



People's Bank together with the Institute of Chartered Accountants of Sri Lanka introduced a special relief loan scheme for their COVID-19 affected members.



People's Bank deploys Lanka QR payment solution at Lanka Sathosa.

SOCIAL AND RELATIONSHIP CAPITAL



People's Bank entered into a Memorandum of Understanding (MOU) with the Government Medical Officers' Association (GMOA), with a view of granting personal loan facilities for its membership base.



People's Bank entered in to agreement with Sri Lanka Insurance (SLIC) to offer People's Bank LANKAQR Payment acceptance solutions to SLIC Policy holders.

Customer experience management

Delivering an exceptional customer experience is at the heart of everything we do. By getting to know our customers, we provide integrated solutions to meet their diverse needs and ensure their experience is personal, relevant, instant and seamless.

Our continued digital transformation in 2020, enabled us to meet our customers' evolving needs effectively and efficiently, ensuring our services are relevant and future ready. As a leader in digital banking in Sri Lanka, we aim to offer our customers across the Nation the same empowering and differentiating experience. During the year, an exclusive "People's Elegance" Banking Centre was opened in Ratnapura.

Especially during the pandemic, we supported our customers to access and manage their finances. We were amongst the first to roll out the CBSL relief programme for the benefits of our customers

in addition to providing access to their finances even during the lockdown curfews.

Our long-term success is based on the customer satisfaction and loyalty. We have maintained a sustainable growth in our customer base during 2020 and it is a testament that customers continued to turn to us for their financial needs and deepen their relationship with us.

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

Product and service labelling and marketing communications

We respect customers' right to have fair and accurate information. By disseminating clear, accurate, timely, and relevant information about our products and services, we enable our customers to make informed decisions. The Bank's Customer Charter have been formulated in conformance to the requirements of the Central Bank of Sri Lanka. We deliver all applicable terms and conditions pertaining to our products and services in a simple, and easy to comprehend manner. Our website provides information pertaining to interest rates on deposits and advances, exchange rates, and other applicable charges. This information is revised daily. Our brochures are printed in all three languages (Sinhala, Tamil, and English) and they contain information about our products and relevant terms and conditions. These are made available at all our branch outlets. In addition, customers can obtain necessary information by calling our Call Centre.

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

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

Geographical presence

Our island-wide presence enables us to serve the less developed and the less affluent sections of our society. Financial inclusion is one of our material themes and 23.8% of our lending customers are from provinces other than the Western Province whilst 24.2% of disbursements during the year were made to these customers.

In addition, we support revenue generation for our customers and respective sectors through the facilities extended with our products and services that span key economic sectors.

SOCIAL AND RELATIONSHIP CAPITAL

Customer usage of our network

One of our key priorities have been providing customers easy access to our products and services. Accordingly, we have continued to expand our presence to 350 fully-fledged branches, 244 self-banking units (SBU), 765 ATMs and 391 service centres that span the island. During the year, we expanded our network by adding 2 service centres 5 SBUs, 10 ATMs, 4 CDMs, and more than 15.4 Mn. number of transactions were done by non-People's Bank customers through our ATM network.

The performance of our branches is monitored by the Channel Management Department based on KPIs. The best performing branches are rewarded for their performance annually. The effectiveness and efficiency of internal controls and risk management mechanism of each branch is monitored by the Bank's Internal Audit Department.

Please refer manufactured capital on page 73 for the geographical presence of the customer touchpoints.

GRI 203-2

Inclusive banking

We have always been committed to inclusive finance, from opening our doors to the economically disadvantaged regions in Sri Lanka to empowering women entrepreneurs. We were one of the first financial institutions to have a presence in the Northern and Eastern Provinces over 58 years ago. Whilst our staff serving in these regions are well conversant in all three languages, all our marketing communications are conducted in all three languages to provide an inclusive service. Nearly 179 branches and 95 SBUs across Sri Lanka provide convenient access and services to differently abled customers.

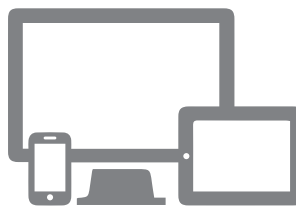
We pioneered specialised products for women and minors to uplift underserved customer segments in our Nation. We still continue to hold a significant market share in these segments, even though intense competition. In order to improve financial inclusivity, our digital services are offered free of charge.

Our commitment to inclusive banking is reflected in our efforts during the COVID-19 pandemic. Apart from introducing multiple loan schemes at highly concessionary rates of interest to support our customers with diverse socio-economic and demographic profiles and small and medium scale enterprises of varying nature, scale and scope, we continued to encourage women entrepreneurship.

Multichannel banking

Moving our focus beyond a brick-and-mortar presence across the country, we have expanded through digital platforms. We offer a single digital platform or "ecosystem" where customers can find solutions to all of their financial and finance-related needs. Our digital platforms include, mobile banking, internet banking, Facebook, Viber, Instagram and WhatsApp. We have continued to improve how customers manage their money, offering increased convenience, financial insights and empowerment through digital banking.

Especially with the outbreak of the COVID-19 pandemic, customers adopting digital channels have accelerated significantly. Over LKR 369 Bn. worth transactions were conducted via our digital platforms during the year. All these measures have increased customer trust and loyalty in our Bank.



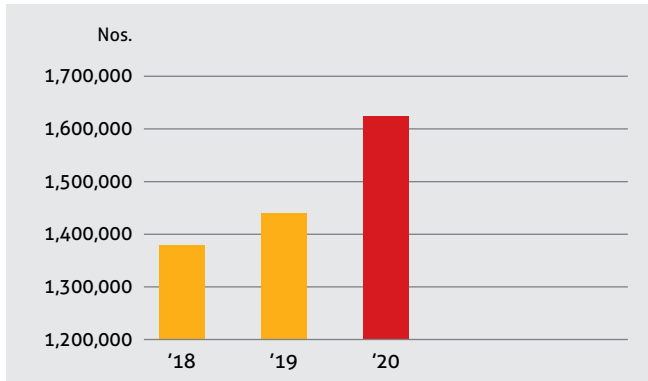
- ➔ **More than 1.6 million Mobile and internet banking customers**
- ➔ **More than 240,000 Facebook fan base**
- ➔ **720 average Facebook inquiries every month**
- ➔ **Average number of visitors to People's Web 81,000 monthly**

Adoption of digital banking channels

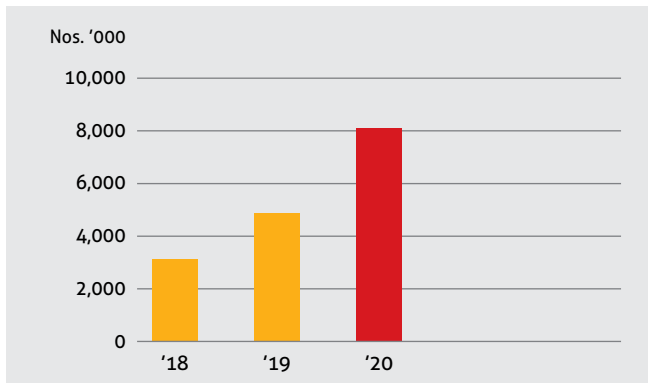
A steady acceleration was observed in the adoption of self-service channels among our customers. 70% of our rural customers have migrated to self-banking channels.

SOCIAL AND RELATIONSHIP CAPITAL

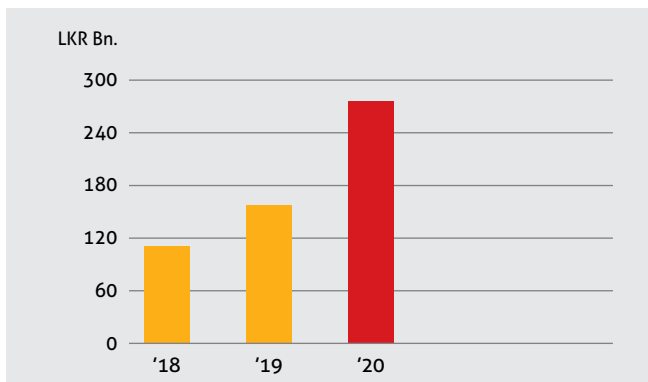
NUMBER OF CUSTOMERS – MOBILE AND INTERNET BANKING



NUMBER OF FINANCIAL TRANSACTIONS – MOBILE AND INTERNET BANKING



VALUE OF FINANCIAL TRANSACTIONS – MOBILE AND INTERNET BANKING



Our call center

Despite our increasing presence on digital channels, our Call Centre remained a high priority area. Especially with the lockdown curfews following the pandemic, many customers reached us through the call centre 24 hours a day.

In response to the pandemic, specialised content and resources were made available to help customers navigate COVID-19 and better position themselves for long-term growth.

Customer education

We strive to empower our customers through structured customer education programmes and customer engagement initiatives. Our aim is to empower customers as tech savvy citizens by bridging the social and digital barrier to banking.

Customer education programmes conducted in 2020



People's Bank contributes to SME sector growth with 'Entrepreneurial Glory' programme for the Hambantota District.

Programme/ Initiative	Objective/Description	Region/District	Number of participants
Entrepreneurial Glory-Business Promotion	To create an image of People's SME Banking approach	Hambantota Badulla Matara	140 200 100

Handling customer grievances

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

SOCIAL AND RELATIONSHIP CAPITAL

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

Complaints pertaining to breakdown of ATMs is monitored by the Central ATM Control Department. A robust mechanism has been instituted to ensure every breakdown is reported to the relevant branch and prompt action is taken within a reasonable time. This has resulted in a significant decline in the number of ATM breakdowns. Our ATM uptime has been on average 99.67% in 2020.

4,275 staff members were strengthened on product knowledge to minimise customer complaints through more than 100 training sessions.

Details of customer complaints received in 2020

Details	Numbers
Number of customer complaints received	908
Number of customer complaints resolved	844
Pending complaints	56
Pending investigations	08
Pending legal cases	0
In progress	64

GRI 416-1, 416-2

Customer health and safety

Customer health and safety is a material aspect and we have taken utmost care to design our products and services to minimise any adverse impacts to health and safety of our customers. However, the nature of such an impact cannot be easily evaluated due to the nature of our business. To safeguard our branch premises, all buildings have fire extinguishers, fire exits, fire sirens and are protected by armed and non-armed security guards.

In response to COVID-19, our core focus was protecting the safety of our people and our customers. Several health and safety protocols were implemented according to Government guidelines in all our branches, SBUs, and other customer touchpoints to ensure the safety and well-being of customers.

Fraud prevention

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

A separate audit function has been established to monitor the growing number of online transactions manned by over 200 staff members.

GRI 418-1

Customer privacy

Stringent measures have implemented to protect customer privacy and maintain a high standard of confidentiality. With the large volumes of sensitive information handled by us, from a wide range of banking transactions, we continue to strengthen our IT and cyber security framework to ensure that confidential customer data is safeguarded. We have several controls in place including regular IT vulnerability assessments, network upgrades, IT audits by third parties and ongoing employee training on IT security aspects. During the year under review, there were no incidents of non-compliance reported due to breaching of customer privacy.

Sale of banned or disputed products

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

Future outlook

We will continue to improve customer loyalty by deepening customer relationships, providing necessary support to customers and drive an inclusive and high-performance work culture. We will also leverage our full suite of products, solutions and digital capabilities, to offer a compelling value proposition to customers. We will continue to enhance the customer digital experience and drive efficiencies by simplifying and streamlining operations.

Our efforts to migrate all our customers to digital banking channels will continue as we empower our citizens to become financially aware and empowered by our digital technology backed financial solutions. We will raise the bar in customer service standards by delivering an exceptional customer experience every time.

SOCIAL AND RELATIONSHIP CAPITAL

➔ BUSINESS PARTNER CAPITAL

Our business partners provide products and services that help us to conduct our operations and execute our strategy. Our regular engagement and strong business partner relationships are integral to our value creation process.

GRI 204-1

Our approach

We strive to add value to business partner capital by adopting a responsible and transparent purchasing policy consistent with our business ethics. Through our fair and equitable tender processes and our fair transparent and efficient contract management, we continue

to strengthen our sustainable supply chain. Our supplier development process is proactive and collaborative. Through our rigorous adherence to all industry regulations, transparency of our operating procedures, ethical business practices and the discharging of our debt obligations in a timely manner, we continue to create shared value. By collaborating with over 353 business partners, we created value of an estimated LKR 11.1 Bn. during 2020.

➔ KEY HIGHLIGHTS

- ▶ 242 Suppliers
- ▶ 242 Suppliers from local communities
- ▶ Over 93% of the value created for suppliers of local origin
- ▶ Relationships with 40 correspondent banks and 71 Vostro agents

➔ MATERIAL THEMES

- ▶ Operational efficiency
- ▶ Supplier value creation

➔ CHALLENGES

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

➔ OUR IMPACT



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



Promoting responsible procurement and environmental friendly practices in suppliers



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



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



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

➔ VALUE CREATED

LKR 11.1 Bn. paid to suppliers






LKR 10.3 Bn. paid to local suppliers

SOCIAL AND RELATIONSHIP CAPITAL





Supporting our business partners through COVID-19

- ▶ Provide financial support to our small and medium-sized suppliers
- ▶ Paid suppliers on time
- ▶ Nurtured strong relationships with our business growth partners across the world

Capital linkages

- 
 - ▶ Supply chain management improves efficiency and derive cost savings
- 
 - ▶ Encourage suppliers to adopt sustainable practices that improves energy use and minimise environmental impact
 - ▶ All suppliers are subject to a stringent screening process in areas of environmental and social sustainability
 - ▶ Ensure that goods and services procured by us are made, delivered, and disposed of in a socially and environmentally responsible way
- 
 - ▶ Investment in digitalisation and procurement processes improvement increases manufactured capital
- 
 - ▶ COVID-19 has propelled the Bank to conduct the tender process digitally, which has improved efficiency
 - ▶ Ethical business practices helps to build strong business partner relationships
- 
 - ▶ Training in supply chain management helps to enhance business partner capital

Our business partners

	<p>BUSINESS GROWTH PARTNERS</p>	<ul style="list-style-type: none"> ▶ Correspondent banks ▶ Vostro agents ▶ Franchise partners ▶ State institutions
	<p>SUPPLIERS</p>	<ul style="list-style-type: none"> ▶ Utility service providers ▶ Materials suppliers ▶ Fixed assets suppliers ▶ Travel and transport
	<p>MAINTENANCE PARTNERS</p>	<ul style="list-style-type: none"> ▶ Software suppliers ▶ Waste management ▶ Communication ▶ Debt collection agencies ▶ Human resource providers
	<p>OTHERS</p>	<ul style="list-style-type: none"> ▶ Contractors ▶ Premises providers

SOCIAL AND RELATIONSHIP CAPITAL

Business partner capital statistics

Number of registered suppliers		Number of correspondent banks		Number of Vostro agents		Payments to suppliers (LKR Bn.)	
2016	2017	2016	2017	2016	2017	2016	2017
363	662	49	46	70	72	8.6	11.2
2018	2019	2018	2019	2018	2019	2018	2019
383	242	43	42	73	71	12.8	12.2
2020		2020		2020		2020	
242		40		71		11.1	

GRI 102-9, 102-10

Supply chain management

Our business partners support timely delivery of products and services to customers. We collaborate with our business partners to ensure quality and compliance and with product and service responsibilities. We continually strive to improve efficiency of procurement through cost optimisation and quality standard. New suppliers are register every year, through a formal Board approved tender procedure by calling for public tenders and following a stringent screening process. Suppliers are screened on environmental and social impacts, in compliance to environmental certifications and Central Environmental Authority (CEA) regulations, risks of child labour and forced labour among others. During the year, we did not identify any supplier/operation, which had a significant risk of child/ forced or compulsory labour.

Due to safety and social distancing measures adopted following COVID-19, we conducted our tender process online, by calling for tenders through a dedicated email and opening the tenders via Zoom to ensure transparency. Adhering to the mandatory requirement of the Finance Ministry, we commenced registering our suppliers on the Electronic Government Procurement (e-GP) system. This system aims to achieve greater performance in terms of efficiency, transparency, competition, fairness, and value for money. The system would also give more opportunities for our non-registered suppliers to bid. Close to 25 of our registered suppliers are on this platform.

INTERACTION	HIGH		Material suppliers	Utility service providers
	MEDIUM	Suppliers of outsourced Employees Assets Suppliers Service	Maintenance trainers and consultants Communication	
	LOW	Premises Providers Contracts		
		LOW	MEDIUM	HIGH

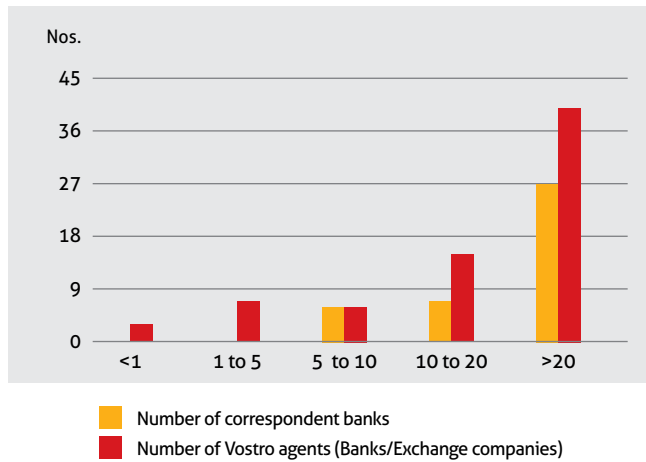
CRITICALITY

SOCIAL AND RELATIONSHIP CAPITAL

Business partner relationships

We have maintained strong, mutually beneficial relationships with 40 correspondent banks and 71 vostro agents. Most of these relationships span over 23 years based on mutual trust.

LENGTH OF BUSINESS PARTNER RELATIONSHIPS



	Length of relationships (Years)				
	<1	1-5	5-10	10-20	>20
Number of correspondent banks	0	0	6	7	27
Number of Vostro agents (Banks/Exchange companies)	3	7	6	15	40

GRI 102-13

Membership in industry associations

Our membership in the following organisations enable us to keep abreast of local and international best practices in the banking industry. These also facilitate enhanced industry standards, networking, and unity in the industry.

We are members of the following organisations:

- Asia Pacific Rural and Agriculture Credit Association
- The Association of Compliance Officers of the Bank, Sri Lanka
- The Financial Ombudsman Sri Lanka (Guarantee) Ltd.

- Institute of Bankers of Sri Lanka
- The Ceylon Chamber of Commerce
- Sri Lanka Bankers Association (Guarantee) Ltd.
- The Association of Banking Sector Risk Professionals – Sri Lanka
- Clearing Association of Bankers
- Employers' Federation of Sri Lanka
- Association of Primary Dealers

GRI 308

Supplier environmental assessment

Suppliers, authorised dealers, manufacturers, and contractors who comply with environmental rules and regulations.

Eg: National Environment Act.

GRI 408

Child labour

Suppliers, authorised dealers, manufacturers, and contractors who comply with the Sri Lankan laws and regulations related on child labour.

Ethical practices

In line with Government regulations and in compliance to our procurement manual, we follow a transparent tender procedure for procurements. We have embedded environmental, and social concerns into our procurement process by adopting a stringent supplier screening mechanism. Our suppliers, contractors and consultants are expected to maintain highest standards of ethics. We add value by providing feedback, ensuring they meet highest standards of quality, and also through our timely payments. All information pertaining to our suppliers are treated with utmost confidentiality.

Future outlook

We will continue to strengthen the relationships with our business partners and follow ethical business practices. We will encourage our suppliers to be onboarded to the (e-GP) system and continue to enhance our supply chain management and deliver savings. We will enter into more strategic partnerships in the future.

SOCIAL AND RELATIONSHIP CAPITAL

➔ INVESTOR CAPITAL

Our investors provide capital and funding, and have a vested interest in the performance of the Bank. Investor capital is the value delivered to the equity owners through efficient operations that increase revenue, earnings, and free cash flow, which leads to an increase in dividends and capital gains for the shareholders.

Our approach

We continually strive to maximise shareholder value through better decision-making that ultimately results in Bank's sustained growth in revenue and profits. Maintaining a high level of integrity and transparency in our operations by presenting timely, relevant and balanced view of the Bank's operational results, financial position and cash flows helps to boot investor confidence in our Bank. We also maintain a strong capital adequacy position to be able to withstand stressed conditions. Holding our liquidity position healthy within liquidity risk appetite and continued investment in infrastructure, process re-engineering, people, and technology help to deliver improved operational resilience.

➔ KEY HIGHLIGHTS

- ▶ Return on equity increased to 14.4%

➔ MATERIAL THEMES

- ▶ All material themes from pages 53 to 56 on the Report

➔ CHALLENGES

➔ OUR IMPACT



Strong governance, business ethics, prudent management decisions contributing to a strong and resilient Bank

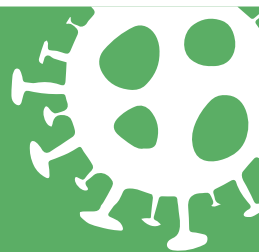


Promoting inclusive and sustainable economic growth, employment and a decent work environment

➔ VALUE CREATED

LKR 3,024 Mn. dividends paid to shareholders

Improving investor capital through COVID-19



- ▶ Providing a seamless and uninterrupted service to customers increased customer trust and loyalty in the Bank which helped revenue and profit generation
- ▶ Creating a safe and healthy work environment following safety protocols, safeguarded employees who were able to engage in value creation
- ▶ Adhering to Government's health and safety guidelines protected customers and employees increasing the trust in the Bank

Capital linkages



- ▶ Revenue and profit growth through prudent management decisions and risk management increase investor capital



- ▶ Investment in digitalisation contributing to a greener planet



- ▶ Dedicated, loyal and competent staff who implement the strategic plan of the Bank to achieve growth



- ▶ Digitalisation, People's Bank brand strength, innovation and tacit knowledge increase intellectual capital



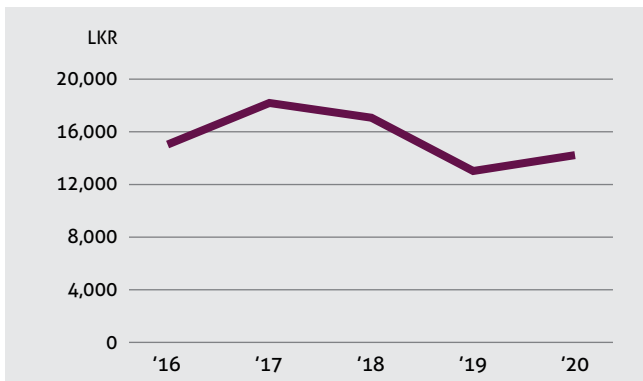
- ▶ Investment in ICT infrastructure, property, plant and machinery supports value creation that enhance investor capital

SOCIAL AND RELATIONSHIP CAPITAL

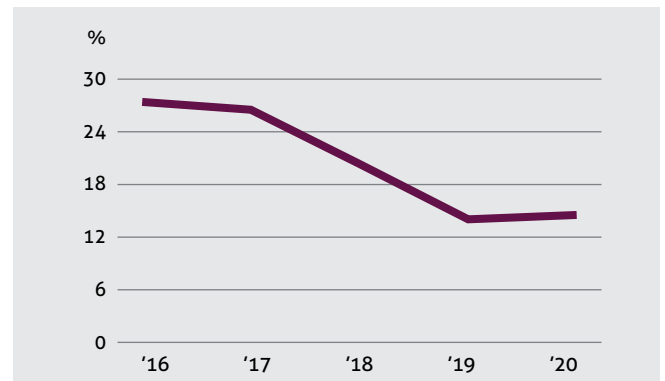
Investor capital statistics

Earnings per share (LKR)		Net assets per share (LKR)		Return on assets (%)		Return on equity (%)	
2016	2017	2016	2017	2016	2017	2016	2017
14,995	18,250	59,649	77,457	1.7	1.9	27.5	26.6
2018	2019	2018	2019	2018	2019	2018	2019
17,095	12,926	91,210	94,964	1.5	1.1	20.3	13.9
2020		2020		2020		2020	
14,175		101,984		1.0		14.4	

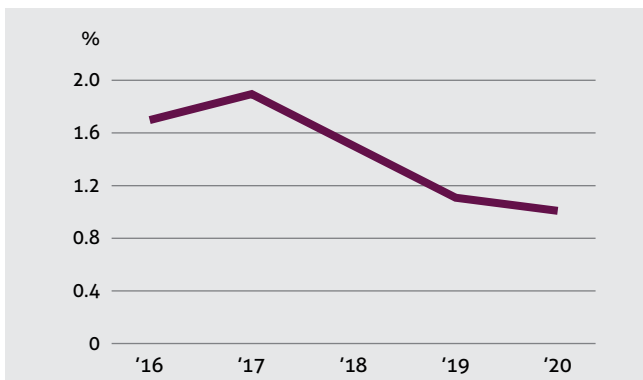
EPS



ROE



ROA



SOCIAL AND RELATIONSHIP CAPITAL

Shareholder profile

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

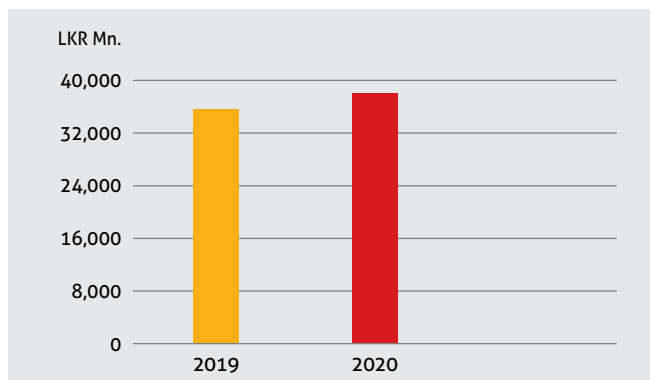
Economic value added (EVA)

EVA is the surplus value created for the shareholders on their investment. We strive to deliver optimal value to our shareholders through efficient use of capital and higher profit generation. The EVA created in 2020 amounted to LKR 38 Bn.

For the year ended December 31,	2020 LKR '000	2019 LKR '000	Change %
Invested equity			
Shareholders' funds	101,983,598	94,964,440	7.4
Add: Cumulative provision for loan losses/provision for impairment	87,886,600	76,330,377	15.1
Total	189,870,198	171,294,817	10.8
Earnings			
Profit after tax	14,174,943	12,925,683	9.7
Add: loan losses and provisions/impairment provision	11,567,174	8,488,026	36.3
Less: Loans written off	(412,843)	(95,638)	331.7
Total	25,329,274	21,318,071	18.8
Cost of equity (Based on 12 months weighted average Treasury Bills + 2% for risk premium)	7.0%	8.6%	
Cost of average equity	12,694,950	14,210,948	-10.7
Economic value added	38,024,224	35,529,019	7.0

Note: Certain comparative figures have been adjusted to conform to the current period presentation.

ECONOMIC VALUE ADDED



SOCIAL AND RELATIONSHIP CAPITAL

GRI 201-1

Direct economic value generated and distribution

Information on the Economic Value Generated and Distributed provides a basic indication of how the Bank created wealth for stakeholders. The table below shows the Bank's contribution to the Sri Lankan economies in the past five years.

For the year ended December 31,	2020 LKR '000	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000	Growth % 2020 vs 2019
SOURCES OF INCOME						
Interest	179,717,526	186,714,218	166,441,208	149,184,471	109,970,256	-3.7
Exchange	3,311,844	800,416	6,016,099	2,119,499	2,572,743	313.8
Commission and fees	6,723,826	7,336,594	6,956,292	5,132,907	3,948,052	-8.4
Capital gain	336,495	329,071	162,923	125,763	531,921	2.3
Other	892,017	4,548,686	1,707,356	4,272,751	5,091,388	-80.4
Total	190,981,708	199,728,985	181,283,878	160,835,391	122,114,360	-4.4
UTILISATION OF INCOME						
To depositors/Borrowers as interest	118,783,744	125,507,699	111,034,922	98,718,636	66,845,869	-5.4
To employees as emoluments	19,685,506	19,226,233	19,504,835	14,738,069	13,633,514	2.4
To providers of goods and services	11,128,830	12,153,293	12,822,211	11,168,408	8,588,379	-8.4
Net impairment loss on financial assets	11,567,174	8,488,026	2,623,970	1,348,460	1,246,748	36.3
To Government – Taxes, special levy and dividend	14,444,917	19,817,027	19,814,596	20,522,887	20,515,560	-27.1
To community	28,703	35,683	42,288	56,317	40,269	-19.6
Retained for growth	15,342,833	14,501,024	15,441,056	14,282,614	11,244,022	5.8
Total	190,981,708	199,728,985	181,283,878	160,835,391	122,114,360	-4.4

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

Certain comparative figures have been adjusted to conform to the current period presentation.

Dividend payment and dividend policy

We strive to pay a consistent stream of dividend to our shareholders based on our dividend policy, which supports both shareholders' returns and the Bank's long-term business expansion. Dividend payment for 2020 amounted to LKR 3,024 Mn.

Future outlook

We will continue to increase shareholder value by generating increased profits, delivering attractive financial returns, effecting improvements to governance and through sustainable and prudent growth.

SOCIAL AND RELATIONSHIP CAPITAL

COMMUNITY CAPITAL

As a leading financial services provider with the widest reach and the largest customer base, we play a significant role in society. We support the socio-economic progress of communities by connecting with them and investing in communities in which we operate to support growth and build resilience.

GRI 413-1

Our approach

We are guided by our sustainability policy, to touch the lives of local communities through our CSR programmes. Through inclusive finance, we empower society and enhance their quality of life. Building financial literacy and business acumen have enabled women and youth to emerge as community leaders and entrepreneurs. Our financial inclusion programmes are helping disadvantaged people to build financial management skills and savings capabilities. Whilst conducting our business in a socially responsible manner, we strive to uplift the underprivileged communities by developing arts and culture, healthcare, and education in particular.

KEY HIGHLIGHTS

- ▶ LKR 28.7 Mn. invested in community development

MATERIAL THEMES

- ▶ Socio-economic impacts

CHALLENGES

- ▶ COVID-19 created challenges for the communities to engage in employment and access finances
- ▶ Staff could not volunteer their time to engage in CSR activities due to safety reasons

OUR IMPACT



Spurring economic growth through inclusive financing, education, and creation of job opportunities



Supporting education through scholarships



Increasing food production through the provision of inclusive finance for small scale farmers



Sharing knowledge, technology, expertise, and financial resources to achieve SDGs



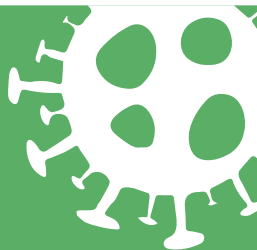
Enhance the health systems through funding, infrastructure development, and safeguarding the health and well-being of communities through awareness campaigns

VALUE CREATED

Supported 1,544 SMEs affected by the pandemic towards economic recovery

SOCIAL AND RELATIONSHIP CAPITAL

Supporting our communities through COVID-19



Truly living up to our being "The bank of the People" we were one of the first financial institutions who came to the fore to support the communities through COVID-19.

- ▶ Staff and customers were educated on practicing safety protocols
- ▶ Several COVID-19 awareness campaigns were conducted on social media and mass media to educate the communities
- ▶ LKR 10.0 Mn. was donated to COVID-19 Healthcare and Social Security Fund
- ▶ Offered the CBSL moratoriums on loans to 21,000 businesses
- ▶ Offered loans to struggling enterprises including SMEs at highly favourable terms
- ▶ Maintained our presence and reach largely undiminished across our branch network, through the 24/7 operation of our digital services
- ▶ Kept over 70% of our branches open for essential services in the height of the lockdown
- ▶ People in the remote areas were provided access to their finances through Mobile ATMs that reached over 1,000 remote locations
- ▶ Provided services through our SBUs free of charge
- ▶ Facilitated salary and pension payments, including Samurdhi payments on time
- ▶ Made repayments for the benefit of depositors of troubled finance companies for and on behalf of the CBSL
- ▶ Introduced a number of new loan schemes, to provide financial relief to the numerous industries affected by the pandemic

Capital linkages



- ▶ Investment in community development activities depletes financial capital
- ▶ Utilising financial capital to extend community based development loans



- ▶ Enabling communities to transact through our Self-Banking Units have contributed to a less-paper environment



- ▶ Self Banking Units have greatly enhanced convenience and provided communities in remote areas to access banking services



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



- ▶ Staff volunteer their time and effort to engage in CSR activities
- ▶ Staff engaging in CSR activities builds team spirit and enhances employee well-being
- ▶ Recruiting from local communities improves the standard of living of communities

Community capital statistics

Investment in CSR (LKR Mn.)		Community based development loans (Nos.)		Community based development loans (LKR Mn.)	
2016	2017	2016	2017	2016	2017
40.3	56.3	62,943	51,375	13,168.8	10,479.2
2018	2019	2018	2019	2018	2019
42.3	35.7	42,511	31,686	9,017.6	7,852.4
2020		2020		2020	
28.7		37,064		22,967.2	

We uplift communities around us through structured CSR programmes focused on uplifting arts and culture, education, health, and other social activities. Our financial solutions uplifting the lives of diverse individuals.

SOCIAL AND RELATIONSHIP CAPITAL

Investment in CSR projects in 2020

Category	Amount LKR '000
Art and culture	14,700
Education	2,645
Environment	10,590
Health and other social activities	768
Total	28,703

Health and other social activities



A blood donation campaign was organised at our Head Office to commemorate our 59th anniversary following the required health guidelines. A large number of our staff members volunteered to donate blood.



To commemorate our 59th anniversary, Isuru Udana gift certificates were presented to every baby born in Sri Lanka between 1 July 2020 and 31 December 2020. This was done through a special event at the Castle Street Maternity Hospital for Women in Colombo. The objective was to give new parents a financial goal of securing the future of their children. A financial contribution was made for the refurbishment of the restroom for mothers as well as for the compiling of the handbook given to new mothers. Our staff members actively participated by visiting hospitals across the island to handover the gift certificates to parents of new born babies.



An official passenger van was converted as an Ambulance with basic first aid facilities, to be used in an emergency of the People's Bank staff.



The Gampaha Regional Head Office donated a refrigerator, washing machine and a hot water purification unit to the Negombo District Hospital under the guidance of CEO/GM in order to upgrade the healthcare and quality of the hospital during the COVID-19 outbreak.

SOCIAL AND RELATIONSHIP CAPITAL

Education



A national event was organised at "Ape Gama" premises to commemorate the World Children's Day. We gifted a special clay till to children having Isuru Udana and Sisu Udana accounts to inculcate the savings habit and support local industries in line with the Government's "Vistas of Prosperity and Splendour" manifesto.



We entered into a partnership with the University Grants Commission (UGC) of Sri Lanka to extend concessionary loan facilities with easy repayment plans to all undergraduates of universities in Sri Lanka to purchase laptops. This has greatly assisted undergraduates in their studies whilst enabling them to expand their knowledge.



In collaboration with the Employees' Trust Fund (ETF), we presented financial gifts to children of ETF members who excelled in the Grade 5 scholarship examination. This was done for the 10th consecutive year.

Arts and culture



We were the main sponsor of the historical Kandy Esala Maha Perahera, the iconic cultural pageant of Sri Lanka culminating perennial customs and traditional dances.

SOCIAL AND RELATIONSHIP CAPITAL



The Bank donated musical instruments and equipment to the Anuradhapura Sri Sarananda Vidyalaya with the participation of Bank officials from Anuradhapura Region and Head Office Marketing Department.



The Ruhunu Katharagama Esala Maha Perahara was sponsored by the Bank with a contribution of LKR 5 Mn.

The Bank also contributed LKR 1.0 Mn. for the annual "Navam Maha Pehara 2020" which was organised by the Gangaramaya Temple.



New "Vanitha Saviya" loans were introduced to empower women entrepreneurship. To commemorate our 59th anniversary 966 women were granted "Vanitha Saviya" loans.

Empowering communities



We tied up with the Industrial Development Board (IDB) to develop Micro, Small and Medium Enterprises (MSMEs), which had greater potential for export, import substitution, domestic value addition, and employment generation. Close to 5,000 MSMEs were empowered with technical and managerial support together with proper financial facilities to ensure sustainability of their businesses. This reflects our commitment to developing entrepreneurship in Sri Lanka.



The Bank contributed LKR 1 Mn. for the annual "Kelaniya Duruthu Festival 2020" to mark the Sri Kalyani Rajamaha Vihara Sanwardhana Sabha Perahara.



To mark our 59th anniversary, 59 "Aswenna" and 59 "Saubagya" COVID-19 loans were granted to customers of the Marandagamula Branch. These loan schemes were introduced to support the Government's development programme of uplifting the small and medium businesses that were adversely affected by the COVID-19 pandemic.

The much needed financial facilities were extended to industries adversely affected by COVID-19 to support them towards rapid economic recovery. These were extended in parallel with the "Saubagya COVID-19 Renaissance Facility" of the CBSL.

SOCIAL AND RELATIONSHIP CAPITAL



People's Bank partners with Co-operative Rural Bank Federation to grant loans to uplift the standard of the farming community



Launch ceremony for People's Bank becoming the first state bank to accept fingerprints for pensioner verification.

Nearly 650,000 pensioners benefited when we became the first Bank to accept fingerprint verification as equivalent to the submission of the life certificate. This has greatly enhanced convenience for the pensioners when obtaining their monthly pensions. This facility is available across 75 People's Bank branches across the Nation.



People's Bank meets with the Spices and Allied Products Producers' and Traders Association (SAPPTA) with the aim of creating tailor-made financial solutions to boost spice exports.

We offer tailor-made financial solutions to uplift the spice industry to be competitive in the international market. Stakeholders across the value chain including smallholder farmers, collectors, processors, and exporters are empowered through these solutions.

Environment



People's Bank sponsored a project by the Federation of Environmental Organization to remove Invasive Alien Species (IAS) from the tank beds of Minneriya Park and the Kaudulla Park.



People's Bank initiated an Eco Park development project at Welimada where the Bank in 2019 initiated planting of trees in order to develop an Eco Park with a view of reducing the carbon footprint. The trees planted at the initial stage are now growing under close supervision of a team of agricultural specialists. The Bank sponsors annually the maintenance and labour costs of the project.

Several special loan schemes were launched during the year to support different segments of the society. These loans were disbursed through our island-wide branch network.

SOCIAL AND RELATIONSHIP CAPITAL

Loan scheme	Eligible segment
"Special Financial Service package for Young Professionals"	Young professionals (18-40 years) – doctors, dentists, vets, engineers, architects, accountants, IT professionals/software engineers
Special loan scheme for Government Medical Officers/Government Dental Surgeons	Specialists, consultants, medical officers, internship medical officers, nurses, and other health sector staff
"Gurusetha" loan scheme	Permanent teachers in Government Schools, Government Technical Colleges, Pirivenas, and Government-approved private schools
Laptop/PC/tablet loan scheme	Teachers in Government Schools, Pirivenas, Government-approved private schools and technical colleges, Buddhist monks, undergraduates of Medicine, Engineering and IT faculties of universities
Special loan scheme under the University Grants Commission (UGC)	Staff members of all universities
Special loan scheme for Judicial Services	Judges
Special loan scheme	Members of the Artist Associations

GRI 203-1

Community based development lending

Financial assistance was granted to specific industry sectors through refinance loan schemes by partnering Non-Governmental Organisations (NGOs) and government organisations. These facilities which are granted primarily through the Bank's SME Development Unit and the Micro Finance Units, supporting employment generation, cottage industries and developing Sri Lanka's agricultural sector. During the year 2020 18,034 loans were extended to several industries and approximately, 63% of the loans were granted from the Bank's funds.

	As at end December 2020			
	Funded by the Bank		Funded through Refinance Schemes	
	Number of loans	Outstanding amount LKR Mn.	Number of loans	Outstanding amount LKR Mn.
Agriculture	11,205	8,027.53	2,639	1,116.23
Commercial	616	214.14	6,058	7,922.35
Consumption	8	6.49	13	10.90
Financial	26	7.84	85	131.60
Housing and property development	11	2.85	60	98.50
Industrial	366	48.49	1,469	1,422.62
Other economic activities	11,079	1,345.06	1,483	343.20
Services	110	46.83	1,641	1,746.23
Tourism	30	69.63	165	406.75
Grand total	23,451	9,768.87	13,613	13,198.37

Future outlook

We will continue to fulfil the needs of the local communities within which we operate, focusing on priority areas that are of strategic importance to our operations and our Nation.

NATURAL CAPITAL

We remain committed to a cleaner and a greener planet by managing the short-term and long-term impacts of our business operations. By following a comprehensive Natural Capital management strategy we strive to minimise climate change and global warming which are the most challenging environmental issues of our times. Therefore, we focus on sustainable value creation by optimising our sustainable resource use and promoting sustainable business practices among our stakeholders.

Our approach

A comprehensive management plan has been implemented to mitigate our overall GHG (Green House Gas) impact. We do this by focusing on energy, waste, increasing the efficiency of our products and services and optimising resource allocation. In particular, our

digitalisation process improves our waste management, given that it is paperless. Our green banking concept offers concessionary lending to environmentally friendly business projects and promotes the digital banking drive.

→ KEY HIGHLIGHTS

- ▶ Three solar branches
- ▶ 1,622,907 mobile banking customers
- ▶ 1,712.50 tonnes, CO₂ emissions reduced and/or offset
- ▶ 1,118,810 accounts opened digitally

→ MATERIAL THEMES

- ▶ Responsible lending
- ▶ Environmental impact of the business

→ CHALLENGES

- ▶ Could not conduct the planned environmental sustainability projects with staff members due to safety precautions following COVID-19

→ OUR IMPACT



Implementing water conservation measures and promoting responsible consumption across the network



Investing in green buildings, measuring and reducing our carbon footprint and practicing responsible water, waste and energy management across the Bank



Building green branches and converting branches to solar energy



Promoting sustainable use of resources and implementing environmental conservation initiatives to support life below water



Build sustainable cities and communities by integrating environmental sustainability into our operations



Sustaining life on land and by sustainable use of natural resources and implementing environmental conservation initiatives



Promoting paperless banking through digitalisation, electronic communication, and documentation



Collaborating to combat climate change across the value chain

→ VALUE CREATED

Recycled approximately 7,631 kg of paper

NATURAL CAPITAL

Safeguarding our environment through COVID-19

- ▶ Accelerated onboarding customers to digital banking channels that promote less paper banking
- ▶ Majority of transactions were conducted via digital channels that saved fuel consumption due to less travelling and less paper consumption
- ▶ Some of the staff worked from home which helped to reduce energy consumption and water consumptions across the Bank, whilst reducing non-renewable fuel usage due to reduced commuting
- ▶ E-waste generated reduced substantially due to reusing of computer hardware

Capital linkages



- ▶ Installing renewable energy and implementing environmental sustainability measures depletes financial capital but contributes to reducing energy costs and realising cost savings in the longer term



- ▶ Employees engaging in environmental conservation initiatives enhances employee work-life balance and team spirit
- ▶ Nurturing an environmental conscious culture in the Bank



- ▶ Constructing carbon neutral buildings and installing renewable energy contributes to manufactured capital
- ▶ As a Platinum Life Member of the Green Building Council of Sri Lanka (GBCSL), all our construction projects adopt the GreenSL® Rating System of GBCSL



- ▶ Integrating environmental sustainability initiatives improves our brand reputation and trust and confidence in our Bank
- ▶ The Bank's governance structure ensures that we comply with all applicable rules and regulations
- ▶ Our responsible and ethical actions towards scarce resources ensure environmental sustainability



- ▶ Focus on environmental sustainability builds customer confidence and compliance with applicable environmental regulations
- ▶ Engaging in responsible lending and promoting environmental friendly practices across our value chain

NATURAL CAPITAL

"People's Green Pulse" Environmental Policy

We are guided by our "People's Green Pulse" environmental policy to measure, manage, and mitigate our environmental footprint and achieve our aspirations for a greener future. Calculating and reporting our environmental impact is a tangible way to demonstrate our sustainability commitment enables us to stay ahead of local environmental regulations, and give us an undeniable edge in the sector. This encompasses our entire branch network and sustainability teams across all key operational functions to manage our environmental and social initiatives.



Buildings	Processes	Customers	Society	Employees
<ul style="list-style-type: none"> • Certifying selected branches as carbon neutral buildings • Introducing solar power generating systems to 100 buildings • Constructing new buildings according to LEED/GREENSL/ CIOB guidelines • All building contractors to follow LEED/GREENSL/ CIOB Green Mark Certification 	<p>Introduce paperless operations such as –</p> <ul style="list-style-type: none"> • Cash and Cheque Deposit Machines • Kiosk for utility bill payments • Widest ATM network in the country • Paperless accounts opening and E-statements for accounts • Loan processing in paperless environment • Internet, Mobile and Web based banking systems • Debit and credit cards • 24/7 People's Call Centre 	<p>Promote Green banking concepts such as –</p> <ul style="list-style-type: none"> • Opening of accounts through Express Banking which is a paperless operation • Issuing E-statements to all account holders on request • Aggressively promoting SMS and Internet Banking • Issuing of debit cards – cashless society • Rolling-out Express Banking for new customers • CDM-cash depositing, ATM-cash withdrawals • Kiosk-bill payments 	<p>Offering the benefits of operating as the most carbon conscious Bank/Green Bank in Sri Lanka to the society as a whole</p>	<ul style="list-style-type: none"> • Creating environmental sustainability awareness, • Providing concessionary staff loan facilities to purchase solar power systems, hybrid cars and electric cars • Encouraging employees to practice electronic communication and documentation • Nurturing an environment conscious culture

Constructing Green branches

We have committed to construct all our new branches as Green branches whilst carrying out all renovations and retrofits according to Bank's Green Building Policy. We are a Platinum Life Member of the Green Building Council of Sri Lanka (GBCSL), and all our construction projects adopt the GreenSL® Rating System of GBCSL. All our branches have obtained the Sri Lanka Accreditation Board (SLAB) Accreditation – ISO 14065 and GHG 002-01.

GRI 305-1, 305-2, 305-3

Reducing our Carbon footprint

We were the first State-owned Bank in Asia to be awarded the CarbonConscious® certification by Sustainable Future Group (SFG) in 2019. As a requirement of this certification, we have established objectives and identified initiatives to mitigate our overall GHG impact. Our efforts are focused on reducing our emissions by increasing energy efficiency, investing in reforestation, investing in renewable energy, and purchasing carbon credits.

Given below is the carbon footprint of our Head Office for the financial year 2020. As a result of the effective measures implemented across the Bank to reduce the GHG impact.

NATURAL CAPITAL

ISO category	Emission source	GHG emissions (t CO ₂ e)	Percentage (%)
Category 1	Stationary Combustion	29.95	1.75
	Mobile Combustion	273.71	15.98
	Fugitive Emissions	63.72	3.72
Category 2	Purchased Electricity	813.19	47.49
Category 3	Upstream Transportation and Distribution	11.44	0.67
	Downstream Transportation and Distribution	0.04	0.00
	Employee Commuting	442.73	25.85
	Business Travel	7.61	0.44
Category 4	Disposal of Waste	0.16	0.01
	Electricity T and D Loss	69.94	4.08
Total		1712.50	100.00

Paper recycling

We successfully reduced paper consumption in our Bank as a result of our investment in digitalisation that promote paperless banking. Banking through our island-wide SBUs, mobile and internet banking channels and digital-enabled branches have significantly helped customers to move towards a green economy. We were able to recycle approximately 7,631 kg of paper in 2020, collected from our recycling points established across our branch network.



IMPACT FOR 2020

→ **Approximately 7,631 kg of waste paper collected**

INDIRECT SAVINGS:

→ **5,353 water litres**

→ **72,970 kWh of electricity**

Waste management

We have implemented a responsible waste management process across our network, to mitigate the severity of irresponsible disposal of solid waste and its circumstances on the biodiversity and human health. We segregate the waste generated with the support of our employees. Our waste management process is supported by the respective municipal/urban councils and Central Environmental Authority endorsed third party recycling service providers. We practice e-waste recycling and the recycling service providers are selected through a transparent tender process. During the year, we minimised our e-waste significantly by repairing and reusing computer hardware. Wastewater is discharged as per the guidelines of the National Water Supply and Drainage Board.

Water conservation

Several measures have been implemented to optimise water consumption. These including installing a waste water treatment plant to recycle waste water for gardening and flushing purposes, installing dual flush cisterns, auto flush toilet systems and automatic faucets in the washrooms. We always strive to make our employees conscious about conservation of natural resources. We aim to gradually fix water saving mechanisms such as auto flush toilet systems and automatic faucets in all our branches.

GRI 302-1 GRI 302-2 GRI 302-3 GRI 302-4

Energy conservation and efficiency improvements

Even though our operations are not energy intensive, we always strive to increase energy efficiency, reduce energy consumption, and eliminate waste across our operations. Our main energy consumption source is electricity and transportation through our fleet and business-related travel. Our energy consumption has decreased in 2020, largely due to our commitment to conserve and also due to movement restriction following COVID-19. We continued to focus our efforts on increasing our reliance on renewable energy usage such solar energy by installing solar PV systems in 3 branches. We aim to convert 20 more branches to solar in 2021.

Some of the initiatives implemented to reduce energy consumption –

- Optimising Bank's energy consumption by giving due consideration to the "Energy Efficiency Ratio" of the machinery and electronic equipment we purchase
- Replacing all lighting fixtures with energy efficient LED lights
- Procuring IT equipment which have a star rating for energy efficiency

NATURAL CAPITAL

- Fixing energy efficient air conditioners with inverter technology in all buildings and carrying out preventive maintenance through on-time servicing and repairs
- Using environmental friendly refrigerators
- Installing fuel efficient, low particulate emission and sound proof generators with remote monitoring facility

Energy source	Energy type	Consumption level (GJ)*	
		2020	2019
Renewable	Electricity	6,236.6	6,499.3
Non-renewable	Fuel	5,979.2	5,888.0
Total		12,215.8	12,387.3
Energy intensity (per employee)		9.52	9.35

*Head Office departments only

Fuel and emissions management

We account for fuel consumption in transportation of our fleet and business related travels under energy consumption. Several measures such as effective route planning, green vehicles and bulk transportation of materials have been implemented to reduce fuel usage.

Promoting responsible finance and green finance

We promote responsible lending by educating our employees on environmental accountability, environmental due diligence in our lending process and the indirect negative impact that could take place from the financial solutions due to lack of screening. Compliance to all relevant environmental regulations, including the CEA license of our clients and the impact on the environment from our business operations are assessed prior to approval. Furthermore, we provide environment friendly loan scheme to purchase solar power systems and vehicle loans to purchase hybrid and electric cars, whilst aggressively promoting paperless banking.

People's Eco Park project

To reduce the carbon footprint, we have initiated an eco-park development project in Welimada under the Environmental Sustainability Policy by planting 300 trees, which are being nurtured by a team of agricultural specialists. We aim to initiate more eco-parks in the future.

GRI 307.1

Compliance

Having complied with all laws and regulations during the year, we were not subject to any fines nor imposed any non-monetary sanctions for non-compliance with environmental laws and/or regulations.

Future outlook

We will continue to advance our "People's Green Pulse" environmental policy to environmental-friendly initiatives to combat the ill effects of climate change in order to secure a sustainable future. Through our green banking concept and the digital banking drive, we will continue to promote environmental sustainability.



OPERATIONAL REVIEW

This section provides an overview of the performance of each business unit, response to COVID-19 pandemic and future focus.

127 / Retail Banking

131 / Enterprise Banking

133 / Corporate Banking

135 / Treasury

137 / Overseas Customer Services and International Banking



→ RETAIL BANKING

HIGHLIGHTS

- Debt moratoriums for nearly **400,000** retail borrowers
- First State Bank to accept **fingerprint** verification of pensioners
- Over **29%** YoY increase in the personal loan portfolio
- **32%** YoY increase in the low-cost deposit portfolio

For over a five decades we have continued to provide innovative financial solutions to our valued customer base exceeding 14 million across Sri Lanka. By understanding their aspirations – from the new born baby to the employed professional and the senior citizen enjoying retirement, our suite of products and services caters to every life stage of the customer. Our services span deposits, pawning, personal loans and credit cards.

Our operations in 2020

The adverse impact of the COVID-19 pandemic caused the Sri Lanka economy to slow down since mid-March 2020 exerting severe hardships to people. Even during the period of crisis, we ensured that our customers are well taken care of. Over 70% of our branches were kept open and self-banking units (SBUs) operational to provide an uninterrupted service to our customers. Appropriate precautions were taken to ensure the health and safety of our onsite staff as well as our customers. To resolve customer disputes a Special Call Centre was established as well.

The People's Bank Mobile Service was launched, covering 1,000 rural cities to enable customers even in the most remote areas in Sri Lanka to access their finances. Financial transactions worth of LKR 671 Mn. was processed through this service during the year. The service was further empowered with Palm Top Banking; which allowed the customer to deposit or withdraw money without an ATM card.

We were amongst the first financial institutions to roll out the Central Bank Relief Programme for the benefit of our customers. The debt moratoriums worth LKR 4.4 Bn. were extended to nearly 400,000 retail customers in 2020 - the largest so extended by any financial services group. The beneficiaries of relief included, amongst many other, salary earners in government or private sector professionals.

We facilitated salary and pension payments, including Samurdhi payments, totalling over LKR 840 Bn. through our island-wide branch network, covering weekends too. Additionally, we undertook the task of facilitating repayments for the benefit of depositors of troubled finance companies for and on behalf of the Central Bank with disbursements to date exceeding LKR 22 Bn.

We also became the first State Bank in Sri Lanka to accept fingerprints of Pensioners for verification purposes, in lieu of conventional life certificate. Any of the almost 650,000 pensioners can avail themselves to this service, irrespective of whether they are People's Bank customers or not which has greatly enhanced their convenience. The facility was launched in 75 branches in 2020.

Multiple loan schemes were introduced during the year at highly concessionary rates of interest to support our customers with diverse socio-economic and demographic profiles. These include, new loan schemes on special concessionary interest rates offered for a large cross-section of groups. Most of these loan schemes were offered at single digit interest rates. The groups included Doctors, Dentists, Engineers, Accountants, IT Professionals/Software Engineers, Healthcare Professionals, School Teachers, University Staff Members, University Students and Artists.

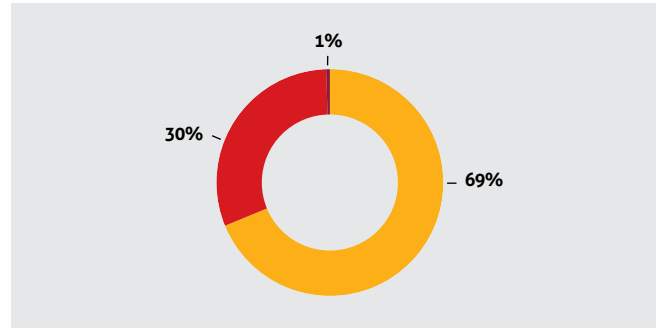
The Retail Loan Originating System (RLOS) has introduced into 100 branches during the year to enable customers to obtain personal loans expeditiously and thereby enhance customer experience.

RETAIL BANKING

Performance highlights

During the year we focused more on extending the relief programmes introduced by the Central Bank for customers affected by the pandemic. Additionally, we launched several personal loan schemes at concessionary rates to help our customers during this difficult period. The performance highlight of each of our key products is given below.

PRODUCT COMPOSITION



Personal loans | Pawning | Credit cards

Product portfolio

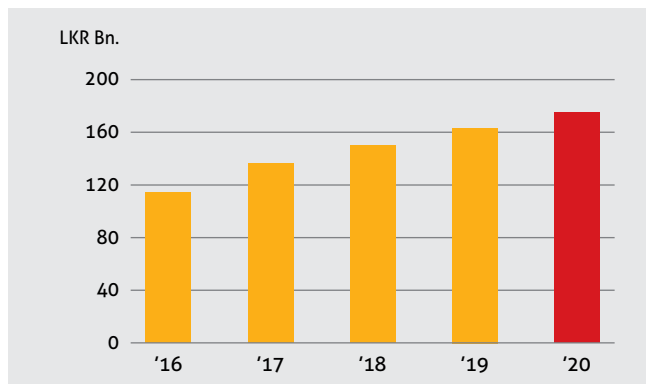
LOAN PRODUCTS	Loans for Professionals	Vehicle loans	Education loans	Loan scheme for Teachers	Loan schemes for Nurses and Paramedical staff
	People's Professional Loan	People's Auto	People's Wisdom	Gurusettha	Suwa Sewana
	Pahasu	(Jayaniwasa)	Dayaviru Pranama		
SAVINGS PRODUCTS	Minor savings	Youth savings	Women's savings	Fixed deposits Demand deposits Foreign currency deposits	
	Isuru Udana	Sisu Udana	YES	Vanitha Wasana	
	Jana Jaya	ISA,	Parinatha	Mudarabah	
CHANNEL PRODUCTS	Debit and Credit Cards				
	Cash deposit machines, self service Kiosks, People's Net and People's Mobile Banking				

RETAIL BANKING

Pawning

We pioneered the pawning business in Sri Lanka and our portfolio as at 31 December 2020 amounted to LKR 175 Bn. Due to the difficult operating conditions following the pandemic, we could not grow our pawning portfolio as planned. However, a range of concessions were granted to all our pawning customers to tide the difficult period. These included, not conducting any auction of unredeemed pawned articles, allowing part payments from any branch island-wide and reducing the interest rate. We were the only bank to facilitate customers to make part payments through 'kiosks'. Through close monitoring and review, we have successfully maintained the non-performing loan (NPL) ratio at 0.5% for the fiscal year.

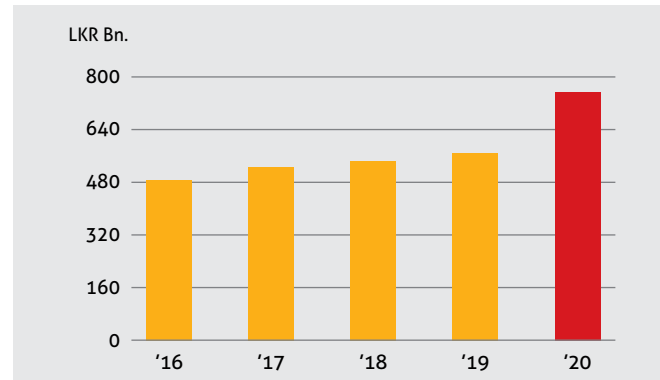
PAWNING PORTFOLIO



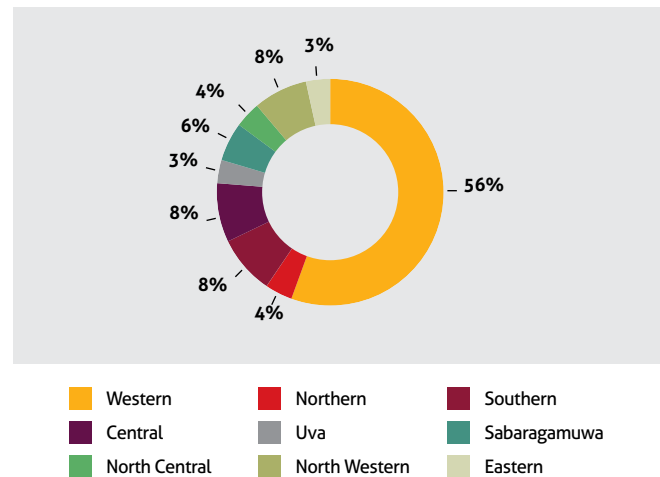
Low cost deposits

Our range of deposit products are comprehensive covering the whole life cycle of a customer. The deposit base which amounted to LKR 1,835 Bn. as at 31 December 2020 continued to be the 2nd highest in the banking industry in Sri Lanka. Amid the difficult operating context, we successfully expanded our deposit base, exceeding the targets for the year. This was largely due our strong People's Bank brand and customer trust. During the lockdown period we were able to mobilise customer deposits from the door step of the customer using our mobile ATMs.

LOW COST DEPOSIT PORTFOLIO



DEPOSITS MOBILISATION FOR 2020 – PROVINCE-WISE

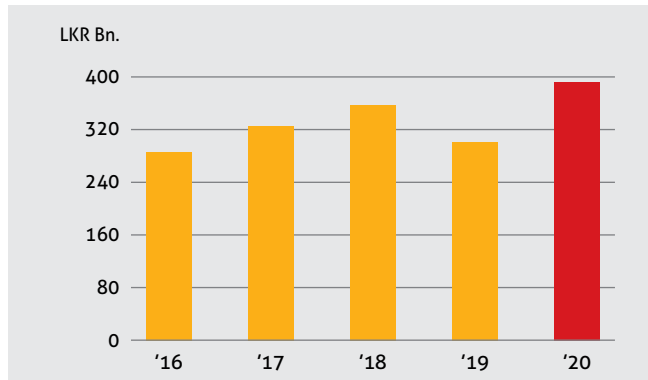


Personal loans

During the year, the personal loan portfolio increased to LKR 391.7 Bn. recording an YoY growth of 29%. A range of personal loan schemes were launched during the year to diverse professionals and other fixed income earners to overcome the challenges following the COVID-19 pandemic. We have successfully maintained a low NPL ratio of 2.09%, through stringent monitoring and review.

RETAIL BANKING

PERSONAL LOAN PORTFOLIO



Credit cards

People's Card Centre issues both – VISA and Mastercard branded credit cards and credit card portfolio has achieved 3.1 billion target at the end of year 2020. Card portfolio consist with VISA Classic, Gold, Platinum, and Signature, Mastercard Gold and World&MasterCard Coporate Cards. We have the latest state-of-the-art system to issue and process our credit card operations efficiently. All our credit cards are NFC (contactless) technology enabled delivering added protection to every purchase made via the credit card to minimise fraud. Further, as per international regulations, all cards are EMV (Electronic Magnetic Verification) enabled as well. Premier credit card facility consists of three categories as platinum, Visa Signature and Master World. These premier cards have several benefits such as travel insurance and lounge-key facilities. We continued to grow our card-spend by launching attractive seasonal and year-long promotions, offering incentives, and other privileges to card holders. During the year we extensively deployed the merchant acquiring POS machines.

Future focus

Installing RLOS system to 100 new branches across the island to facilitate more personal loans.

Increase new customer acquisitions and expand our customer base.

Accelerate our digital offerings to lead in customer experience and optimise distribution costs.

Deliver superior customer experience leveraging digital interaction, while deepening relationships with our customers to enhance loyalty and engagement.

Maintain the portfolio quality by stringent credit evaluations and review.

Our response to COVID-19

- Granted moratoriums near to 400,000 customers to the value of interest concessions amounting to LKR 4.4 Bn.
- Loan instalments recovered in March 2020 amounting to LKR 3 Bn. were refunded to customers.
- Recovery of loans from 5,000 Pensioners was suspended for three months and all pension payments were made in advance before the due date.
- Amongst the first to roll out the Central Bank relief programme for the benefit of customers.
- LKR 829 Bn. was allocated to extend the credit schemes introduced by the Central Bank at concessionary interest rates.
- Multiple loan schemes were introduced at concessionary rates of interest to support our customers.
- Kept 70% of our branches open across the island and enabled customers to access their funds via digital channels and mobile trucks.
- Simplified our applications process to expedite the granting of the concessionary loans.

→ ENTERPRISE BANKING

HIGHLIGHTS

→ Granted **LKR 13.7 Bn.** working capital loans

→ Granted **307** Solar loan facilities

→ **4,700** 'Aswenna' loan facilities granted

→ **LKR 208 Mn.** Credit guarantee scheme facilities

The enterprise banking arm plays an integral role in uplifting the micro and small and medium enterprises (SMEs) that form the backbone of the Sri Lankan economy. The Unit serves diverse customer segments including SMEs, Development and Micro Finance, Commercial Credit and commercial banking customers. We gain access to concessionary lines of funding by working with the Government of Sri Lanka and global aid agencies. By combining both conventional and non-conventional lending products, a unique value proposition is offered to our customers. Our conventional lending products include term loans, trade and working capital facilities and cash margins loans. Non-conventional includes special funding lines that promote the concept of development banking through low-cost funding lines.

Our operations in 2020

Following the outbreak of the COVID-19 pandemic, the micro and SMEs were severely affected during the year. The Government of Sri Lanka (GOSL), introduced concessionary schemes to revive the businesses adversely affected by the outbreak. During this unprecedented time, we assisted the Government to re-start the economy and support people of our nation to get through the difficult time through an injection of much-needed funds via bank loans and advances with attractive financial solutions. Hence, our focus for the year was to support enterprise banking customers by offering moratoriums and other concessionary facilities to revive their businesses.

New working capital facilities were granted to 8,600 customers to the value of LKR 13.7 Bn. under the refinance scheme introduced by the Central Bank of Sri Lanka (CBSL). These facilities were offered at a concessionary interest rate of 4% per annum. LKR 829 Mn. of the Bank's own funds were also utilised to extend these facilities.

To expedite the loan granting process, authority was delegated to branches through a special management approval. As a result, we were able to disburse these facilities to affected customers across the island in a speedy manner.

The tour operators were severely affected initially by the Easter Sunday attacks in 2019 and then by the COVID-19 pandemic. To provide relief to these customers we allocated a sum of LKR 250 Mn. of which LKR 200 Mn. was disbursed during the year. The rates were further reduced to 4% and the tenor of the facilities were extended by 6 months to provide further financial relief to this segment.

In keeping with the Government's "Vistas of Prosperity" national policy framework we launched Made in Sri Lanka loan programme in collaboration with Industrial Development Board who provides the technical expertise. The aim of the scheme is to boost the development of local industries, promote export-oriented industries and import substitute industries, enhance quality of local products, increase self-employment opportunities for locals and drive regional development. These facilities are disbursed through our island wide branch network. 250 applications were received by our customers and non-customers during the year.

To expedite the credit evaluation process, a special rehabilitations and project finance unit was established at the head office. We also strengthened our regional credit units by deploying minimum of three officers for SME, development banking and commercial banking credit evaluation and relationship management.

To boost the expertise of the SMEs, we organised three "Entrepreneurial Glory" programmes in different regions of the island. This includes a series of seminars tailor-made to provide valuable insights to entrepreneurs looking to start their own business or expand their existing ventures. The aim of this programme is to enhance their knowledge on a variety of key topics such as Business Planning, Marketing, Accounting, Financial and Tax Management.

We also continued to disburse facilities under Asian Development Bank's (ADB) Rooftop Solar Power Generation Project to promote environmental sustainability. 307 facilities to the value of LKR 527 Mn. was disbursed during the year 2020.

ENTERPRISE BANKING

Several training programmes were conducted for our regional managers and regional credit officers to enhance their knowledge and expertise.

Refinance loans

We granted 3266 New Comprehensive Rural Credit Scheme (NCRCS) introduced by the CBSL to the value of LKR 7.3 Mn. in 2020. These schemes are funded by the GOSL and are introduced annually targeting the Yala and Maha seasons. The schemes serves as an interest subsidy scheme and a credit guarantee scheme as well. Note: NCRCS is not a refinance loan scheme but a credit guarantee scheme

Interest Subsidy Loans

Several loan schemes were introduced under this category at a concessionary interest rates to revive businesses severely affected by the pandemic.

We disbursed LKR 100 Mn. bulk loan facilities to the Corporate Rural Bank Federation to disburse to the farmers affected by the pandemic. These facilities were introduced by the CBSL under the Smallholder Agribusiness Partnerships Programme (SAPP) implemented the by Ministry of Agriculture.

Under the "Aswenna" loan scheme 4,700 credit facilities were granted, amounting to LKR 1.7 Bn. during the financial year. The customers received facilities upto LKR 3 Mn. for agricultural business purposes with repayment period extending upto three years for working capital loans and five years for investment loans.

To support the government's development programme, "Business Power" loan scheme was launched to empower SMEs operating in sectors of agriculture, manufacturing, construction, direct and indirect exports, innovation and technology, etc. 440 credit facilities were granted amounting to LKR 671 Mn. under this scheme in the fiscal year 2020. Facilities up to LKR 50 Mn. were granted for working capital and investment purposes with repayment period extending up to three and five years respectively.

Together with the Industrial Development Board (IDB), we launched the "Made in Sri Lanka" loans programme. Whilst IDB provides the necessary technical and managerial support these projects, we provide specialised financial support to ensure sustainability of their businesses. By end December 2020 over 25 facilities were extended with a total value of LKR 125 Mn. But more than 200 applications are in process.

Credit guarantee scheme

These facilities are granted without collateral and a portion of the loan is guaranteed by the Government. Only a few facilities were granted under this scheme during the year.

We supported financial facilities to support government contractors to get their outstanding payments during the year. Treasury guarantees were issues for these facilities. A total of LKR 208 Mn. was disbursed under this scheme in 2020.

Future focus

We will focus on increasing the proportion of commercial customers to have a balanced portfolio. More entrepreneurs will be canvasses through our branch network to enhance financial inclusion.

We will reach untapped customer segments in remote areas of the island by appointing development officers.

To spur the entrepreneur spirit in university graduates a special programme will be launched in the ensuing year.

Emphasis will be given to maintaining a healthy profitable credit portfolio.

We will continue to develop the knowledge of our customers who are the engine of growth of the economy.

We will enhance and empower or staff to offer an excellent customer experience.

Our response to COVID-19

- Provided over 8,600 working capital loans totalling LKR 13.7 Bn. from the CBSL refinance scheme
- LKR 1.0 Bn. was allocated from our funds.
- Multiple new loan schemes were introduced by us to certain sectors with most of the loan schemes offering single digit interest rates.

→ CORPORATE BANKING

HIGHLIGHTS

→ **LKR 700 Bn.** loan portfolio

→ **LKR 51.4 Bn.** credit relief to corporate customers

→ **LKR 6 Bn.** NPAT

Serving a diverse client base including local, international and off-shore corporates, BOI entities and State-Owned Enterprises (SOEs), the Corporate Banking division plays a pivotal role in supporting the national interest of Sri Lanka's socio-economic and infrastructure development. Our products and services include loans, working capital and trade finance, project financing, and cash management facilities.

Our operations in 2020

Between the Easter Sunday attacks in 2019, the COVID-19 pandemic in 2020, and subsequent import restrictions it has been a tough year for the economy and many of our clients.

During the year 2020, we focused on diversifying our portfolio. Out of the LKR 700 Bn. corporate banking portfolio, 75% comprise SOEs and the balance 25% the private sector. The SOEs are a vital segment that drive our revenues and provide opportunities to acquire new customers and cross sell our products and services. Whilst serving the SOEs, we focused on increasing the private sector contribution by developing integrated solutions leveraging on digital platform while coordinating with the other divisions of the Bank. Strengthening our client relationships was another area of emphasis that would pave the way for increased scalability for the future. Developing customised digital solutions for payments, collections, payroll and payment servicing contributed towards boosting the Bank's CASA growth and FCY deposits. We also promoted QR payments and cashless transaction to enable clients to manage their businesses virtually.

In response to challenges caused by the COVID-19, our support was extended to our clients with strategic and disciplined relief programmes including debt moratorium repayment deferrals, restructures. Important financial advice and services were extended to access working capital financing to sustain their business operations and also reduce the debt burden. A working capital grant of

LKR 1.1 Bn. was extended to our customers at a concessionary rate of 4% during the period. We successfully managed the overdues without transferring to non-performing category through close monitoring and stringent review.

We introduced a Special Deposit Account (SDA) during the year, to drive inward remittances and attract investment from eligible individuals and organisations. Our aim is to support the Government's efforts to attract investments to rebuild the Nation.

Performance highlights

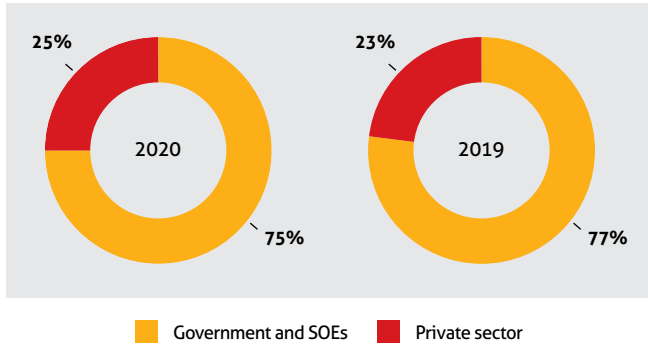
Despite the macroeconomic challenges that emerged following the Easter Sunday attacks, COVID-19 pandemic and import restrictions, we managed to sustain and grow our loan portfolio and net income in comparison to the previous year.

We were able to provide smooth banking services to our clientele, despite the island-wide lockdowns, via our digital platforms while ensuring data protection and authentication.

Corporate banking	2020	2019	2018	2017	2016
Net income (LKR Mn.)	13,565	12,465	12,339	9,022	8,752
Net profit after tax (LKR Mn.)	6,031	3,142	4,082	4,013	4,367
Assets (LKR Bn.)	702,910	613,818	574,903	372,251	402,397
Advances (LKR Bn.)	696,171	606,422	564,799	354,524	359,879
Deposits (LKR Bn.)	158,251	109,845	156,831	162,130	172,925
NPL ratio (%)	3.7	3.3	2.5	1.5	1.4
Lending to SOEs (LKR Bn.)	574,405	464,876	425,033	247,493	296,567

CORPORATE BANKING

SECTOR EXPOSURE



Future focus

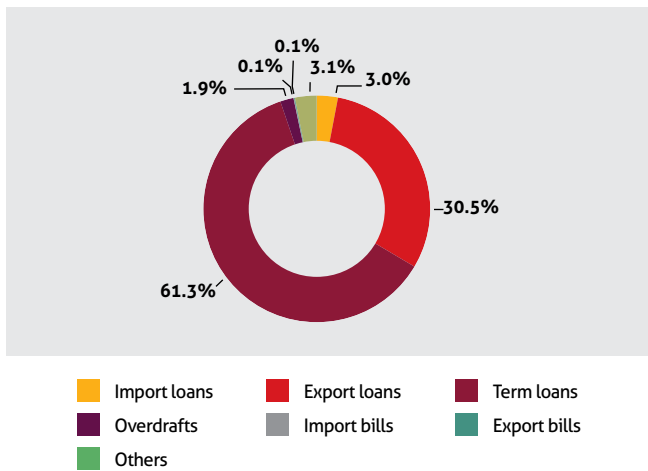
In 2021, our focus will be towards enhancing the support to export oriented businesses. In achieving this, we expect to access special credit lines from international funding agencies.

Priority will be given to expanding credit to the energy sector, in particular to private-owned power plants and renewable energy plants.

By leveraging our island wide branch network, we also expect to canvass more corporate clients across the island.

We will further accelerate our digital offerings to lead in customer experience, optimise costs, and realise efficiencies. More emphasis will be given to upskilling our staff in areas such credit risk management and analytics in the ensuing year.

CORPORATE BANKING PORTFOLIO – 2020



Our response to COVID-19

- Net loan amount of LKR 117 Bn. was granted to SOEs in 2020
- 90 corporate banking customers were granted moratoriums
- Credit relief was granted for 90 corporate banking customers amounting to LKR 51.4 Bn.
- 30 Working capital loans were granted at concessionary rates
- Extended financial advice to customers to overcome the challenges posed by the pandemic

➔ TREASURY UNIT

HIGHLIGHTS

➔ **LKR 20 Bn. debentures raised; the highest – ever, longest tenor**

➔ **LKR 9 Bn. NPAT**

Treasury Unit, a key division of the Bank continued to be in the forefront making a significant contribution to the Bank's profitability in 2020. Treasury plays a vital role in managing the Bank's balance sheet, funding and liquidity requirements and optimising the usage of funds. The Unit further manages the market risk of Bank's investment portfolios, foreign exchange, and cash instruments. Treasury is responsible for achieving the overall foreign exchange income, trading income and realised/unrealised gains of the Bank.

The investment banking unit continued to be one of the top investment banks in Sri Lanka for the second consecutive year, a feat achieved in a short span, since commencement of operations in 2012.

Lines of business

- Foreign Exchange Desk – dealing in foreign currency (FX) corporate transactions, FX interbank transactions, management of FX liquidity, FX Money Market transactions, quoting rates for foreign currency fixed deposits, transactions in USD denominated Sri Lanka Development Bonds and GOSL ISB's.
- Money Market Desk – managing the Bank's Statutory Reserve Ratio, management of LKR liquidity, Repurchase and Reverse Repurchase transactions and quoting of rates for local currency fixed deposits
- Primary Dealer Unit – trading in treasury bills and treasury bonds to earn capital gains and management of Sri Lankan Rupee denominated government securities portfolios.
- Investment Banking Unit – management of Bank's equity portfolio, structuring and placement of short and long term corporate instruments including IPO's, management of equity and debt IPO's, providing of trustee and placement agent services

Our operations in 2020

Year 2020 was challenging following the COVID-19 pandemic that had an adverse impact on economies, households, businesses and financial institutions across the world. We maintained seamless operations throughout the pandemic by connecting with clients through digital strategies and tools and our staff working productively from home and from our fully-fledged disaster recovery site.

Our overarching commitment to support the Government in their numerous initiatives remained steadfast even through the difficult operating context in 2020.

As the top fund raiser accounting for a significant amount of total FX borrowings of commercial banks in Sri Lanka, we continued to set the benchmark in raising funds from foreign banks in 2020. The strong relationships with our foreign banking partners across the world, helped to secure substantial short and long-term foreign currency funding facilities during the year.

Despite the debilitating pandemic, we raised the largest-ever, longest-tenor Basel III, Tier 2-compliant, subordinated debenture ever concluded up to now. The LKR 20 Bn. debenture issue was oversubscribed within few hours reflecting the strong investor confidence in our Bank.

Through diligent investment decisions, we aggressively built up a Government of Sri Lanka international sovereign bond (ISB) portfolio in a challenging dollar liquidity scenario. The prices of government bonds plunged due to several factors including the unprecedented pandemic shock and country's rating downgrade by international rating agencies. As a result, the yield of the bonds increased from about 8% in February 2020 to a high of 30% in October 2020. The weighted average yield of our ISB portfolio is extremely attractive and would generate a steady income for the Bank in the years ahead.

The Ministry of Highways appointed us as the Financial Advisor for restructuring a transaction of LKR 200 Mn. of the Road Development Authority (RDA). People's Bank Investment Bank acted as the Manager to this transaction. We are involved in several other capital market transactions for the Urban Development Board and the Ceylon Electricity Board at present.

TREASURY UNIT

People's Bank was awarded the "Trade Deal of the Year" at the prestigious ADB Trade Finance Programme Awards 2020 (TFP Awards 2020). This was in recognition of the support we extended to our customers to transact with counterparties across the world even during the pandemic. By participating in the TFP, we are able to use an ADB guarantee and give comfort to the foreign parties to transact business with Sri Lankan entities.

Performance highlights

The operating conditions were challenging in 2020, as COVID-19 impacted the global economy and supply chains leading to sharply lower levels of activity in every geography and many sectors. The markets were volatile, characterised by subdued credit demand, low dollar liquidity and reduced interest rates. As a result, the market volumes reduced by 30 - 40% YoY during 2020 exerting pressure on net interest income. Despite the trying year, we successfully achieved all our key performance indicators, whilst meeting all our payment obligations on time. We were a significant contributor to the Bank's profitability during the year.

Treasury	2020	2019	2018	2017	2016
Net income (LKR Mn.)	12,238	10,728	11,419	9,100	10,121
Net profit after tax (LKR Mn.)	9,384	7,547	8,125	8,089	5,796
Assets (LKR Mn.)	476,208	563,980	512,031	446,219	388,746

Future focus

We will venture into custodian services and fund management services. With the completion of the treasury systems upgrade in January 2021, we will be able to provide aforesaid services and position ourselves as the preferred partner to the SOEs and leading corporate entities.

With the expected challenge in extending project finance due to a dearth in long-term funding conditions in the ensuing year, we aim to support the flow of credit by raising long-term LKR funding through debentures. We will focus on strengthening our funding profile further by increasing the proportion of customer deposits.

With the envisaged challenges in credit due to the debt moratorium, we intend to increase our contribution to Bank's profitability next year. Our focus will be to increasing our trading income and net interest income to drive our revenue streams.

We will continue to strengthen the relationships with our clients and business partners.

Our response to COVID-19

- Facilitated staff to work from home and from the DR site
- Conducted seamless operations throughout the year
- Supported the Government to manage LKR interest rates and dollar exchange rate at stable levels
- Raised the highest amount of long-term foreign currency borrowings from foreign financial institutions
- Raised the highest-ever, longest-tenor LKR debenture
- Strengthened relationships with local and foreign business partners

➔ OVERSEAS CUSTOMER SERVICES AND INTERNATIONAL BANKING

HIGHLIGHTS

➔ Converted **70%** of remittances to real-time basis

➔ Network of over **1,000** overseas correspondents

The Overseas Customer Services (OCS) is responsible for managing foreign currency accounts, engaging in FX related transactions, facilitating remittances, and currency repatriation. International Banking (IB) engages in international banking related activities including trade transactions and guarantees.

Our operations in 2020 Overseas customer services

The external environment was challenging in 2020, as the COVID-19 pandemic impacted the global economy leading to sharply lower levels of activity in every geography. The dramatic decline in inward remittances amid the outbreak, presented significant challenges to the operations of our Unit during the year.

Despite the challenges, we successfully converted close to 70% of our remittances to real-time basis to increase customer convenience and enhance operational efficiency. Our presence in remittances market was expanded to the Asian region during the year under review, by tying up with exchange companies in the region. We have secured a strong presence both in Asia as well as the Middle Eastern region.

Measures were taken to onboard cash agents to canvass more inward remittances from across the globe. More digital channels was adopted to engage with customers following the pandemic. The process of conducting the mandatory know your customer (KYC) process of identifying and verifying the identity of the customer was conducted digitally via zoom. This helped to ensure the health and safety of the customers and our staff.

We have continued to nurture mutual relationships with our network of global partners across the world. Several new partners were on boarded during the year, including new integrations with several exchange companies to increase our market share of inward remittances.

The special deposit account introduced by the CBSL, was aggressively promoted, to support the Government to obtain the needed FX deposits.

International banking

We engage in a gamut of trade products including off-shore transactions, loans, and full range of foreign currency accounts. These are facilitated through our network of over 1,000 overseas correspondents in 110 nations.

The travel bans, import restrictions by CBSL and disruption of supply chains had severe repercussions on our operations during the year. Due to the nature of our work, it was imperative for our staff members to work from the office premises. Hence, whilst following all the safety protocols we worked on a roster basis even through the lockdown period to facilitate our customers with uninterrupted service. We continued to serve our customers to enable them to conduct their business operations smoothly, in particular by providing the necessary documentation to release their goods from the port.

Customers were encouraged to use the Corporate Internet Banking System during the year. Accordingly, more customer requests were accommodated via online channels and thereby minimising the need for customers to visit the branch. This has further enhanced customer convenience and safety.

OVERSEAS CUSTOMER SERVICES AND INTERNATIONAL BANKING

Performance highlights

Despite the difficult operating conditions, we recorded a commendable performance, achieving most of our targets.

	2020	2019	2018	2017	2016
Import financing (USD Mn.)	4,332	5,765	5,286	4,392	1,917
Export financing (USD Mn.)	919	527	997	596	85
Average LC processing time (Hours)	3	4	4	4	4
Number of trade guarantees	2,202	2,970	2,939	3,167	3,141
Number of correspondence banks	71	70	73	72	70

Future focus

Expand our global partner network to facilitate remittances.

Expand our reach to countries where we don't have a presence to increase our business.

Enlarge our global partner network to increase FX deposits and remittances.

Station more representatives in overseas markets to canvass more business.

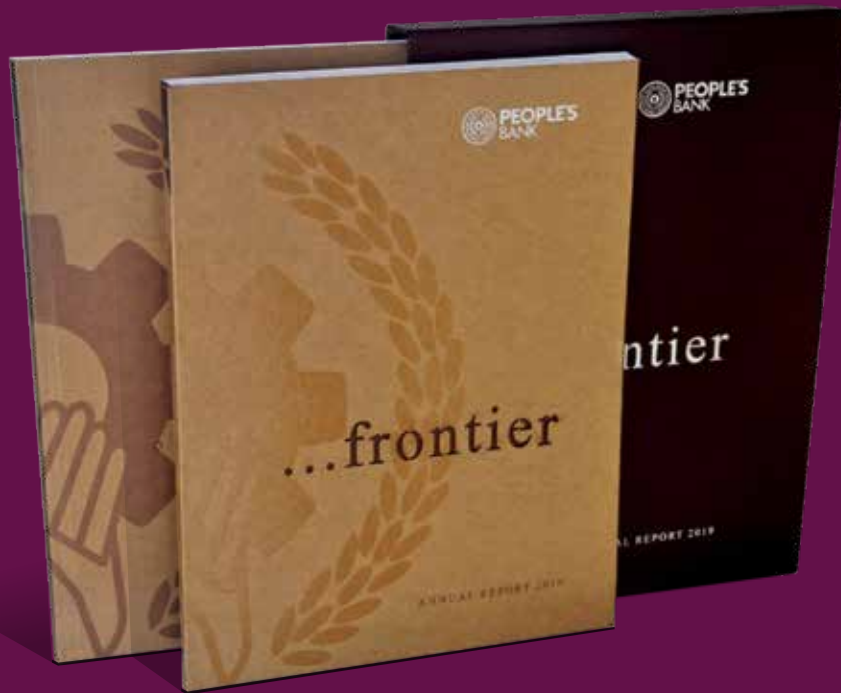
Motivate our staff members to promote the trade finance business amongst existing and potential customers through our branch network.

Promote the Corporate Internet Banking System to customers to conduct their banking needs.

Our response to COVID-19

- Conducted the KYC process online
- Provided a continuous service to customers even through the lockdown
- All staff members worked on a roster basis from the office
- Supported the Government effort to raise FX deposits

When you have a story worth telling



the whole world listens

**People's Bank wins the prestigious
"Best in Sri Lanka Award" for its
2019 Annual Report titled "frontier" at the
34th International ARC Awards in New York.**



RISK MANAGEMENT

GRI 102-15, 102-30

The dynamic changes in the world are reshaping the risk landscape. While financial and non-financial aspects of risk continue to shape risk management decision-making, the dramatic effects of COVID-19, test the operational resilience and agility of banks. It has become imperative for banks to re-evaluate their resilience across all aspects of risk, flex between physical and virtual footprints and be adaptive to the changing dynamics. In a more digital world where there is increased reliance on technology-driven intelligence, cybersecurity and the protection of customer data has become more important than ever, as the Bank's reputation depend on it. Being attuned to dynamic, predictive models to better understand customers and the associated risks will enable to drive opportunities to create competitive advantage and growth. Furthermore, in a potentially worsening economic environment, banks need to dynamically manage their credit portfolios and the risk functions need to be closely integrally connected with the entire operations of the Bank. It is also essential for banks to improve data availability and quality across the risk function to enable real-time sharing, discussion and feedback.

The challenges posed by non-traditional new participants entering certain segments of the market, disrupting the traditional bank operating model with the use of advanced technologies, agile delivery methodologies and analytical tools offering a highly customised user experience with lower fixed costs has the potential to impact revenues and costs in certain areas of the banking business as well.

As the leading bank in digitalisation with the largest customer base in Sri Lanka, our digital transformation and automation journey have proven to be highly effective in conducting our operations and providing an interrupted service through the pandemic. The Bank's sound Integrated Risk Management Framework (IRMF) helps to identify, assess, measure, mitigate, monitor, and report risks

comprehensively. Our operational preparedness and sound early warning risk indicators of potential disruption which enabled us to navigate the challenging year, showcase the resilience of our Organisation. We continue to adopt highest standards for quality and integrity, which are essential to our brand and reputation and to make a lasting impact for our stakeholders. All risk types are managed and reported in accordance with the Bank's Integrated Risk Management Framework. All elements of our risk management framework function together to support prudent and measured risk-taking, while striking an appropriate balance between risk and return.

The objectives of the Bank's Integrated Risk Management Framework are:

- Assess and manage risk exposures of the Bank appropriately
- Develop an effective system to monitor the Bank's risk exposures, linked to Bank's capital
- Establish a compliance mechanism to monitor compliance with internal policies, particularly with regard to risk management
- Establish an effective communication mechanism to communicate all relevant policies and procedures across the Bank
- Adopt and support strong internal controls
- Nurture a strong risk culture within the Bank

Bank's risk management framework

The Bank has a robust risk management framework based on the Three Lines of Defence Model, to ensure a structured mechanism to manage all risk exposures of the Bank. This is an integrated and holistic system that manage risks effectively through three separate and clearly identified lines of defence.

Three Lines of Defence



RISK MANAGEMENT

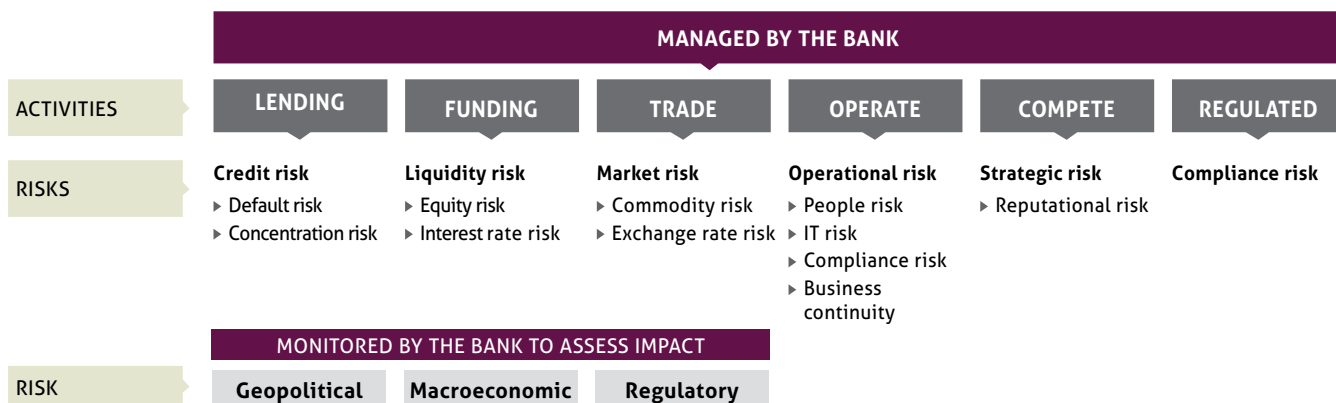
Risk categories

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

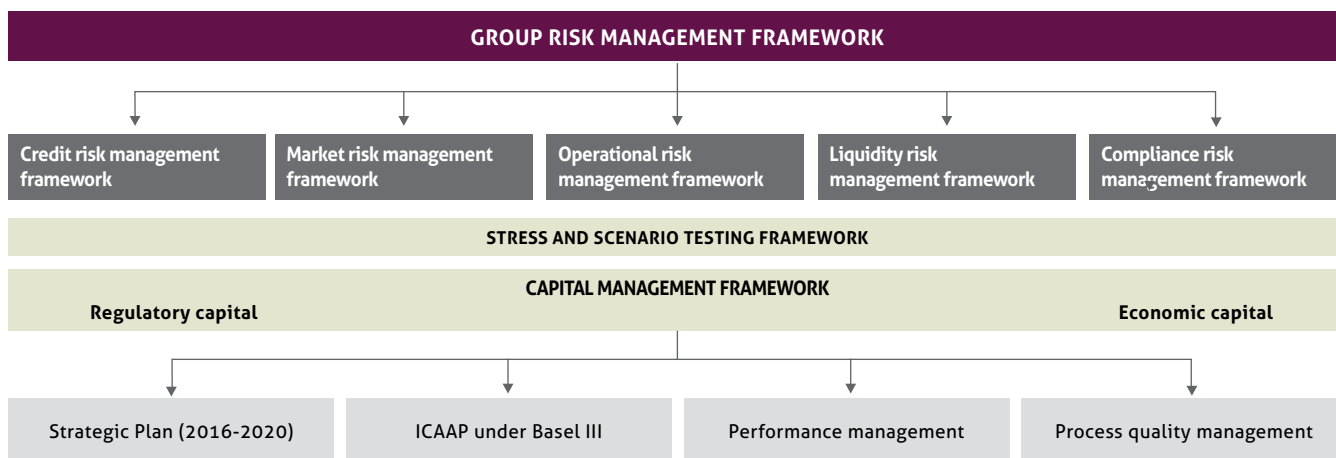
Risk universe of People's Bank

The risk universe of People's Bank comprises all risk categories across all its business lines, functions, geographical locations and legal entities.

Risk universe of People's Bank



Risk appetite framework



Risk appetite

Risk appetite expresses the aggregate level of risk that the Group is willing to undertake to achieve its strategic objectives. This is defined by a set of minimum quantitative metrics and qualitative statements. The risk appetite indicates the maximum level of risk the Group can assume before breaching regulatory constraints and its obligations to stakeholders. This provides a framework for the Bank to drive sustainable performance by evaluating optimal growth options alongside the risks involved. The risk appetite is reviewed and approved by the Board annually, to ensure alignment with the Group strategy, business environment, and stakeholder requirements.

RISK MANAGEMENT

The risk profile of People's Bank as at 31 December 2019 and 31 December 2020, compared to risk appetite is given below:

	Credit risk appetite			Position as at	
	High risk	Medium risk	Low risk	31 December 2020	31 December 2019
NPL/Total advances (without pawning) %	>6	2.5-6	<2.5	3.54	3.72
Overdues %	>10	5-10	<5	4.70	8.64
Provision cover %	<50	50-60	>60	64.09	60.00
P & L charge %	>45	45-35	<35	42.45	29.49
Concentration (HHI Method)	>0.25	0.25-0.15	<0.15	0.22	0.21
Recoveries %	<10	10-20	>20	19.05	26.00
TOD excess %	>20	10-20	<10	12.36	18.21
Overseas exposure (OBU) %	>15	10-15	<10	1.46	1.43

	Operational risk appetite			Position as at	
	High risk	Medium risk	Low risk	31 December 2020	31 December 2019
Operational losses - Internal frauds	>6	3-6	<3	1	1
Operational losses - External (Pawning)	>300	150-300	<150	171	281
Total operational losses to total operational expenses	>1.0%	0.5%-1.0%	<0.5%	2.23%	0.21%
Systems availability					
High critical	<97.5%	97.5%-99.9%	>99.9%	99.92%	99.87%
Medium critical	<95%	95%-97.5%	>97.5%	99.21%	99.06%
Low critical	<87%	87%-90%	>90%	99.99%	99.98%
Percentage of branch audits rated less than average	>12%	7.5%-12%	<7.5%	15%	26%

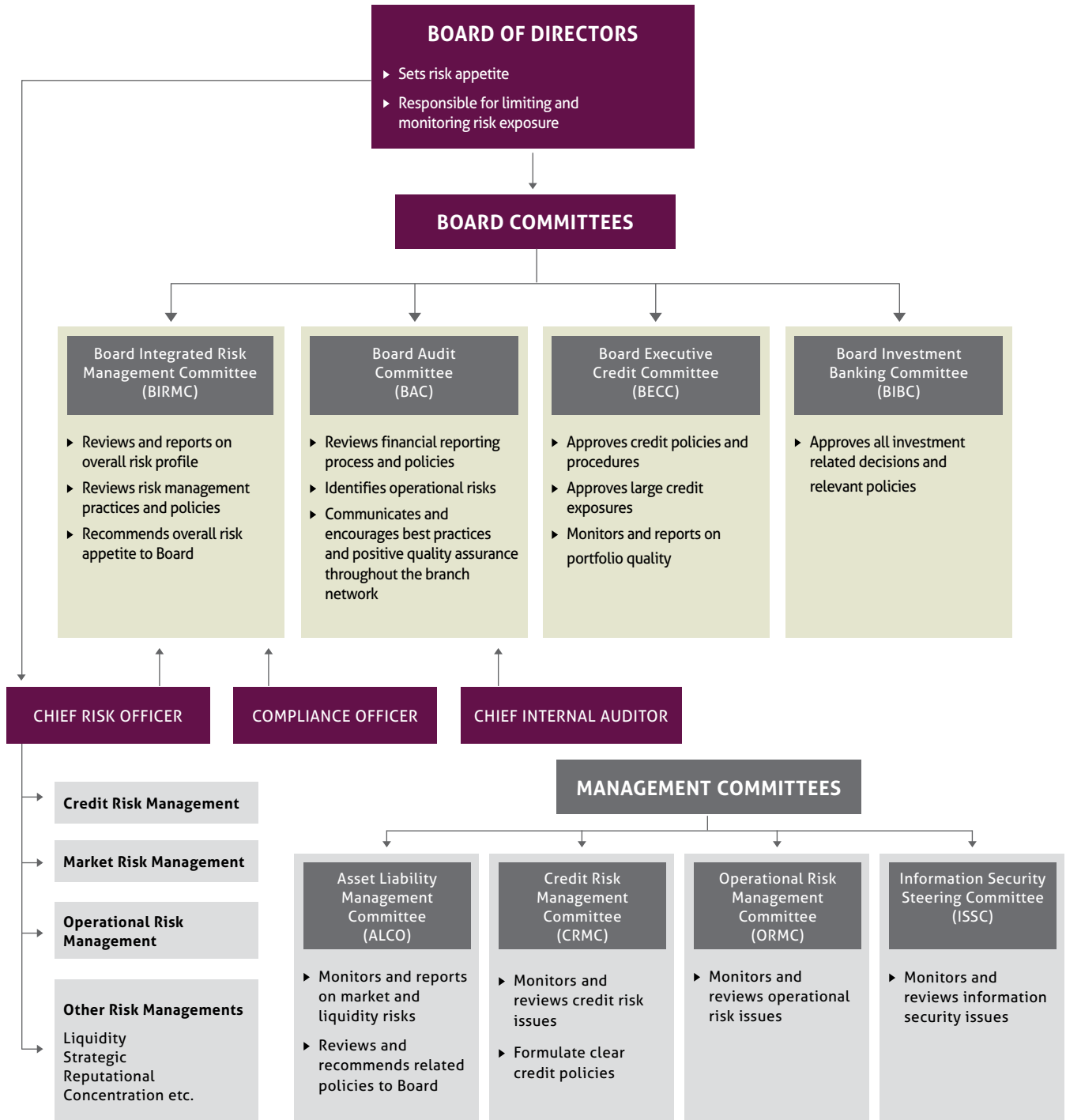
Risk governance

The Bank's risk management framework is founded on a governance approach that includes a robust committee structure and a comprehensive set of corporate policies and limits, which are approved by the Board of Directors or its committees. It also includes specific corporate standards and operating procedures. The Board of Directors hold the apex responsibility for risk oversight and their priorities includes determining risk appetite levels, formulating risk policies and ensuring the effective management of risk exposures.

The Board is aptly assisted by several sub-committees and executive committees in the discharge of duties related to risk management. This provides clear segregation of duties between risk origination and approval of risk exposures whilst ensuring Board level oversight. The Board and the risk committees operate under the directions of their respective charters.

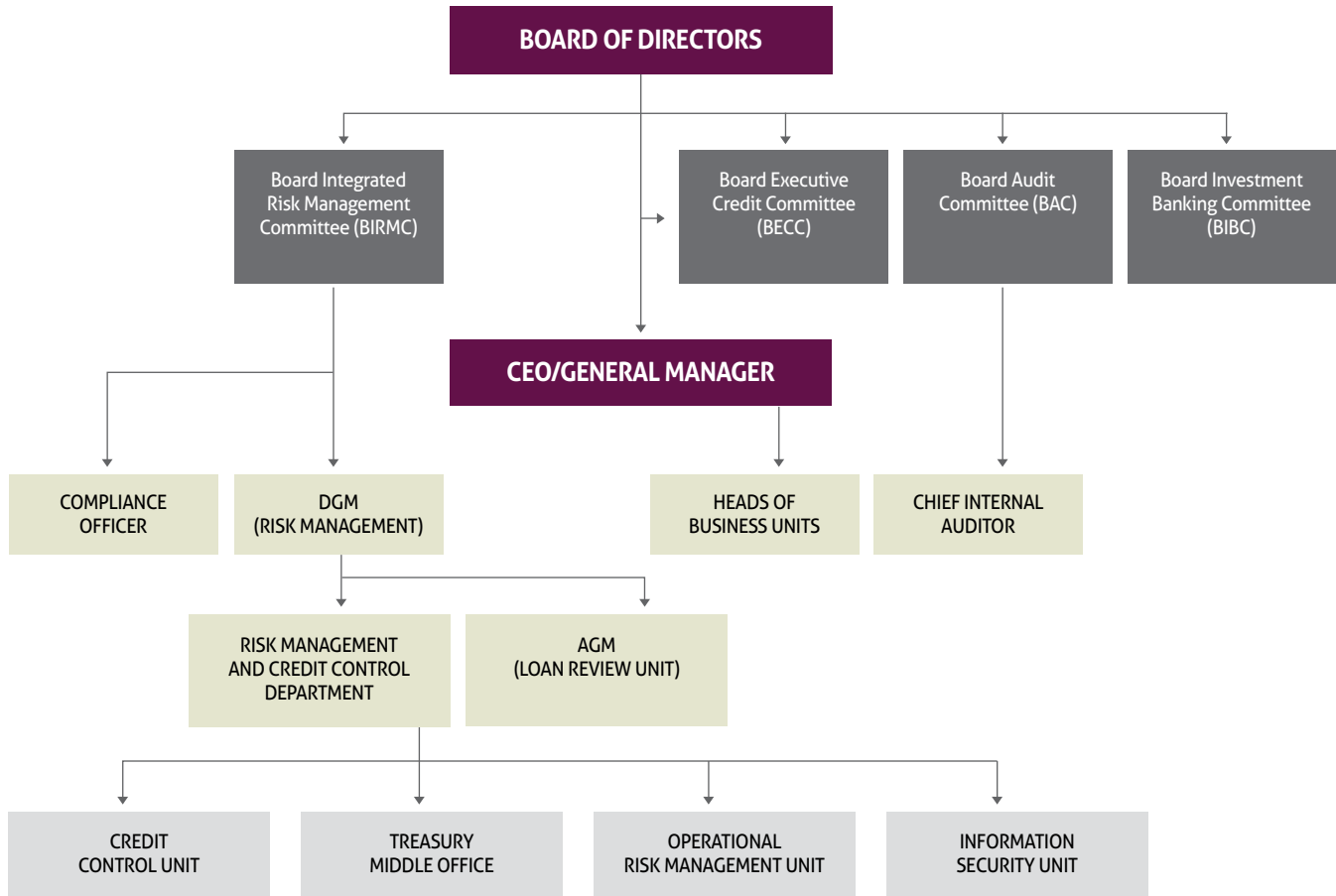
RISK MANAGEMENT

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



RISK MANAGEMENT

Functional structure of the integrated Risk Management Framework of the Bank



Risk culture

We promote a strong risk culture throughout the Group, as we believe that risk management is the responsibility of every employee within the organisation. All employees are responsible to manage and escalate risk whilst exhibiting responsible behaviour that support a strong risk culture. To strengthen the risk culture, we train our employees regularly to enhance their level of risk awareness and provide the necessary skills and experience to manage risks related their roles.

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

- Defined risk appetites for risks taken by the Group
- Every risk to be approved within the risk management framework and adequately compensated
- Continuous monitoring and management of risks

Stress testing

Stress testing is a key element of our risk and capital management frameworks. It is integrated into our enterprise and group risk appetite statements and embedded in our management processes. To evaluate our risks, we regularly test a range of scenarios, which vary in frequency, severity and complexity, in our portfolios and businesses and across the enterprise.

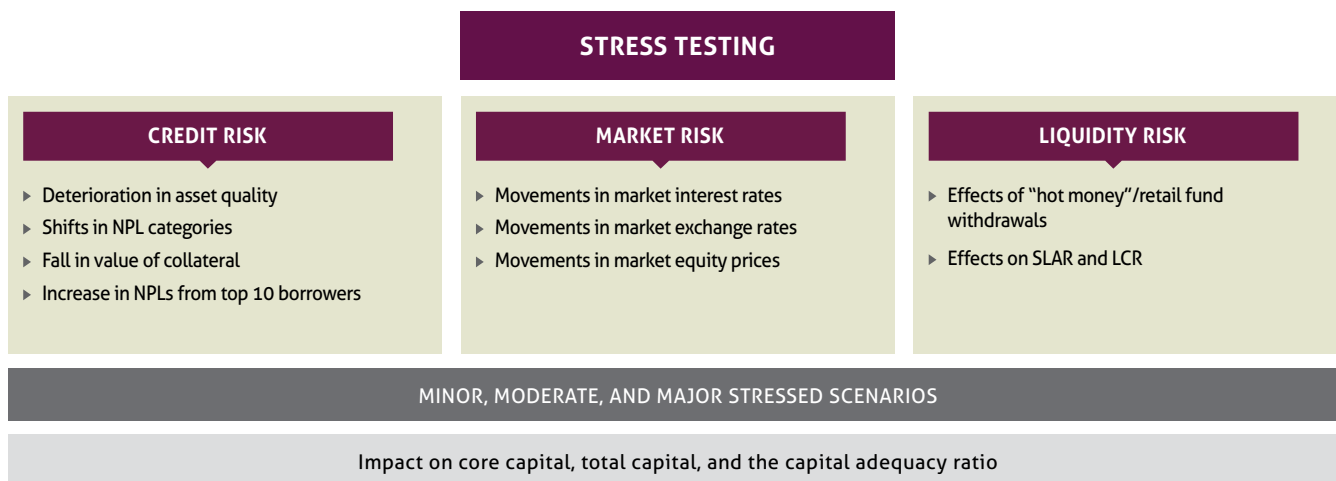
Stress testing is a vital element in our risk management framework. It is a simulation technique adopted to determine how the asset and liability portfolios react to different financial situations, which vary in frequency, severity and complexity. This is conducted periodically, to ensure sufficient buffers of capital and liquidity are available to meet unexpected losses and contractual obligations.

Stress testing is an integral aspect of the Group's Internal Capital Adequacy Assessment Process (ICAAP). We assess the potential impact on the Group's risk profile and financial position including the potential impacts on earnings, capital and liquidity due to macroeconomic and market variables. All material risk types are included in the stress testing exercise.

RISK MANAGEMENT

Regular reviews are conducted by the BIRMC on Group's stress testing outcomes and the major assumptions that underpin them. The outcomes are vital inputs for capital planning for ICAAP, strategic planning, defining risk appetites, communicating with internal and external stakeholders and managing risk within defined parameters.

Given below is the stress testing process of the Group.



New developments in risk management at People's Bank

The following improvements were instituted to enhance the risk management framework of the Bank in 2020.

- A special task force was formed to manage emergency situations following COVID-19
- Appropriate health and safety protocols were implemented across the branch network to ensure safety and well-being of the employees and customers

The Group's preparedness was strengthened to deal with emerging risks, which can surface without warning. The following measures were taken to deal with such emerging risks.

- Streamlining work processes
- Staff adjustments were made by enabling working-from-home facilities and working on a roster basis on location
- Automation of processes were expedited such as the roll out of Retail Bank Loan Origination System (RLOS) across branches
- Customers were on boarded to digital banking platforms
- Cashless transactions were promoted through mobile apps
- Fully equipped mobile ATMs were dispatched to serve remote areas of the island
- Stress testing was conducted to assess the resilience of liquidity and capital levels
- Maintenance of ISO 27001:2013 Standard (Information Security Management System) for the fourth consecutive year.

The following security assessments were conducted as a preventive measure:

Security assessment	Number of assessments conducted in 2020
External vulnerability assessments	4
Internal vulnerability assessments	1 (3 Pending, 2nd Assessment is planned to be conducted in March 2021)
Web application security assessments	10 Web Applications
Host discovery assessments	1
Wireless security assessments	3 sites (Scheduled 18 February 2021)
Firewall security assessments	8 Firewalls (Ongoing)

Focus for 2021

The Bank has put in place proactive measures to manage the heightened risks caused by COVID-19, including risks relating to privacy, health and safety and business continuity. The safety protocols in place as per Government regulations will be strengthened to ensure safety and well-being of our customers and employees. We will continue to grant the Government Relief Programmes and Bank relief measures in place to protect customers against adverse economic conditions caused by the pandemic.

RISK MANAGEMENT

To mitigate the heightened IT risk due to increased use of digital channels for banking following the pandemic, we will expand our cybersecurity capabilities to defend against potential threats and minimise the impact to the business, including the activities to reinforce the Bank's resilience to events caused by factors out of the Bank's control.

The credit post review function will be strengthened by placing the post-review unit under the purview of DGM-Risk Management for closer and frequent monitoring. The regional risk officers too will be placed under DGM-Risk Management to enhance the regional risk management function. The credit evaluation skills of the credit officers will be sharpened through training and development in the ensuing year.

To further strengthen credit concentration of the Bank, geographical limits will be imposed on loans and advances. Limits will be introduced to present value basis point risk of government securities portfolio pertaining to the trading portfolio of Government Securities.

In a low interest rate regime, floor rates will be imposed on lending and whilst discouraging granting of fixed-interest corporate loan facilities, to manage the interest rate risk. Adherence to the limits imposed for liquidity risk management will continue to be monitored. To strengthen the management of foreign currency risk, currency-wise and tenor-wise limits will be imposed as well.

We continue to ensure high system availability to ensure an uninterrupted customer service and enhance customer confidence. Prompt attention to any adverse comments about the Bank on social media will help to safeguard the reputation of the Bank further.

On an ongoing basis, we will continue to identify, manage, and assess the internal and external risks that could impede achievement of, or progress of, strategic objectives. And amendments to the strategic plan will be taken by the Management after discussion and careful evaluation.

Risk	Key controls (Governance bodies)	Change in risk level from 2019 (Increase/decrease/static)	Focus for 2021
Credit risk	<ul style="list-style-type: none"> Board of Directors BIRMC BECC BIBC ALCO CRMC Risk Management and Credit Control Department (RM & CC) Loan Review Unit 	Increased	Sound management of credit quality with enhanced corporate governance framework and improved risk culture in credit lending practices to strengthen Bank's overall performance.
Credit Concentration risk	<ul style="list-style-type: none"> Board of Directors BIRMC 	Increased	Focus on managing the credit concentration exposures within the aspects of industry risk related factors and maintain better diversified sector exposures accordingly.
Market risk	<ul style="list-style-type: none"> Board of Directors BIRMC BIBC ALCO 	Decreased	Managing exposure of market risk assets within the set limits parameters.
Interest rate risk	<ul style="list-style-type: none"> BIRMC ALCO 	Decreased	Maintain interest rate risk within prudential limits by better management of exposures of interest sensitivity.

RISK MANAGEMENT

Risk	Key controls (Governance bodies)	Change in risk level from 2019 (Increase/decrease/static)	Focus for 2021
Equity risk	<ul style="list-style-type: none"> • BIRMC • BIBC • ALCO 	Decreased	More focus on close monitoring of equity market movements and price volatilities and managing investments accordingly.
Foreign exchange risk	<ul style="list-style-type: none"> • BIRMC • ALCO 	Increased	Enhance management of foreign exchange risk within the approved FX limits and to minimise currency fluctuations impact to bottom line results.
Liquidity risk	<ul style="list-style-type: none"> • BIRMC • ALCO 	Increased	To comply with guidelines of the Central Bank of Sri Lanka (CBSL)/BASEL and assure better liquidity management.
Operational risk	<ul style="list-style-type: none"> • BIRMC • BAC • ORMC 	Increased	Assure smooth functions of the core business activities of the bank with proper deployment of operations risk controls and mechanism and to promote self-alertness of staff operational environment.
People risk	<ul style="list-style-type: none"> • BHRMC • HR Development Department 	Increased	Enhance HR management function in a strategic manner to increase value addition
Information technology risk	<ul style="list-style-type: none"> • Board of Directors • BIRMC • BITC • IT Steering Committee • IT Department • CBSL 	Increased	More focus on IT compliance requirements imposed by CBSL and maintain credentials of system availability.
Compliance risk	<ul style="list-style-type: none"> • Board of Directors • BIRMC • BAC • ORMC • Internal Audit Function • Legal Department • Compliance Department • Company Secretary 	Static	AML and strengthen compliance system of the Bank
Strategic risk	<ul style="list-style-type: none"> • Board Strategic Plan Review Committee (BSPRC) • Strategic Planning Department 	Increased	Increased focus on customer's behaviour and changing banking business models with special attention on disruptive technology
Reputational risk	<ul style="list-style-type: none"> • Board of Directors • BIRMC 	Static	Enhance the brand reputation and increase market share

RISK MANAGEMENT

Credit risk

Credit risk is one of the Group's key risk exposures, stemming from the loans and advances portfolio, financial guarantees, letters of credit and acceptances issued and made on behalf of the customers. The risk arises due to the potential loss arising from the failure of a customer or a counterparty failing to meet their contractual obligations to the Bank. Default risk, concentration risk of counterparties, Rating Migration risk and business sectors or geographical regions are the forms of credit risk.

Objectives of managing credit risk

- Maintain a well-diversified portfolio through prudent management of the risk asset portfolio
- Achieve an optimal risk-reward pay-off through maximised returns
- Maintain a high portfolio quality and minimise non-performing loans
- Pre-identification of potential credit risk with changing macroeconomic and industry factors

Managing the credit risk

Credit risk accounts for over 85% of Bank's risk weighted assets. Hence, credit risk management is an on an ongoing process beyond mere regulatory compliance, conducted under the credit risk framework approved by the Board. The framework includes a risk governance structure including policies, procedures, segregation of authority, risk ratings, collateral management and credit monitoring.

The Board Executive Credit Committee (BECC) provides oversight to the Bank's credit risk management. The responsibilities of the BECC include:

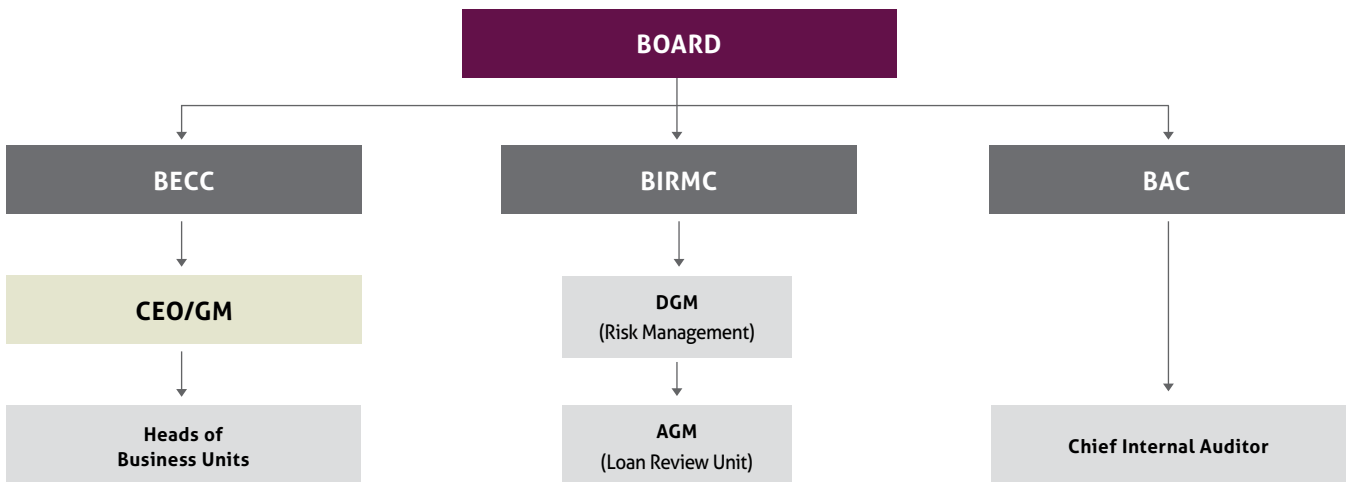
- Formulating and updating credit policies in consultation with the BIRMC and business units.
- Establishing credit approval structures to handle larger and higher risk exposures.
- Conducting periodic reviews of individual credit exposures and the overall portfolio to eliminate undue risk concentrations.
- Effective management of higher risk exposures and ensuring adequacy of provisions.
- Developing and maintaining the risk rating systems.
- Sanctioning or declining credit proposals above a predefined limit.

Managing credit risk

i. Robust risk policies and control framework

The credit risk framework is reviewed and updated regularly by the BECC, based on evolving best practices and emerging risks and opportunities. The credit policy which is approved by the Board, defines the Bank's credit culture, prudential limits in line with the defined risk appetites and remedial and recovery actions.

Organisational structure for credit risk management



RISK MANAGEMENT

ii. Culture of responsible lending

A culture of risk awareness and responsible lending is nurtured across the Group through a robust internal communication process and staff training programmes. Whilst customers are given adequate explanations about the credit on offer, a thorough customer credit evaluation is conducted prior to offering credit facilities or increasing the credit limit. The internal credit rating models represent diverse risk factors and predict the probability of default and loss.

iii. Segregation of authority

The final authority and responsibility for all credit risk exposures is vested with the Board of Directors. Approval for credit authority limits have been delegated to the CEO by the Board. The CEO has the authority to re-delegate approval limits to credit committees and business lines. Each business line has clearly articulated and approved multi-level risk acceptance criteria and credit approval authority. All post-disbursement material changes to a credit facility (such as revision in tenor, covenants or collateral structure) need approval. Segregation of responsibility for risk assessment and post monitoring, facilitate effective implementation of credit appraisal guidelines and specialisation of skills.

Credit approval authorities are assigned to individuals according to their respective grade and periodic reviews are carried out.

iv. Risk rating of obligors and prudential limits

The Bank evaluates the creditworthiness and assign ratings to the borrowers, by adopting a range of measures including in-house assessment methodologies, scorecards and a nine points rating scale. Each category of borrower has different risk rating scorecards, which are periodically reviewed and validated by the BIRMC.

v. Credit risk mitigating and collateral management

Diverse methods are applied to mitigate potential credit losses from any given account, customer or portfolio. These include restructuring, collateral, netting agreements through credit insurance, credit derivatives and guarantees. Collaterals are obtained according to the Bank's collateral policy and the main types of collaterals are movable and immovable property mortgages, cash deposits, plant and machinery, mortgages on stocks, book debts, corporate and personal guarantees.

vi. Credit monitoring and review

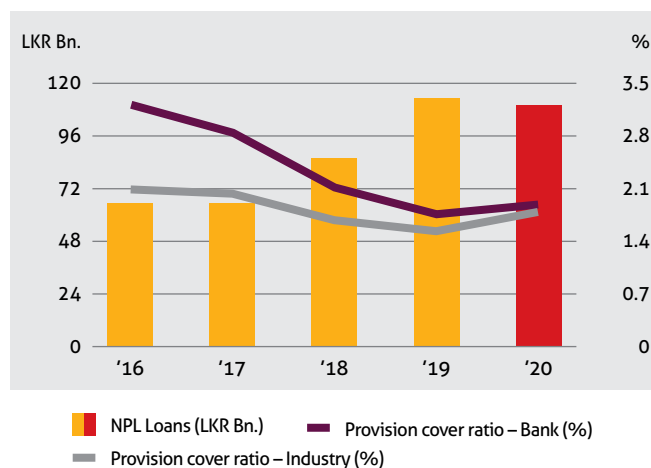
Credit risk positions are actively monitored and managed on an ongoing basis. Credit monitoring is conducted by the credit officers attached to business units, in close cooperation with the Credit Control Department. The credit officers have the relevant expertise and experience to manage the credit risks of their customers. Every credit officer is responsible to monitor the credit of their respective portfolio of borrowers on an ongoing basis.

Internal borrower risk rating and reviews are conducted on all exposures exceeding LKR 500,000.00 by the BIRMC annually. Quarterly reports are submitted to the credit committees on deteriorating credits, which are identified and monitored closely. Non-performing assets are identified at an early stage, facilitating appropriate remedial action by the Management.

vii. Impairment

A comprehensive and robust impairment policy is in place to deal with defaulting customers. The provision for loan impairment is recorded as a reduction of the carrying amount of the loan in the balance sheet. Provisions for loan impairment are made in the income statement and impairment assessments are conducted for all exposures of the Group.

PROVISION COVER OF THE BANK



As at 31 December	2020	2019	2018	2017	2016
NPL ratio (%)	3.2	3.3	2.5	1.9	1.9
Provision cover ratio - Bank (%)	64.5	60.0	72.3	97.5	110.4
Provision cover ratio - Industry (%)	61.3	52.3	57.4	69.9	71.8

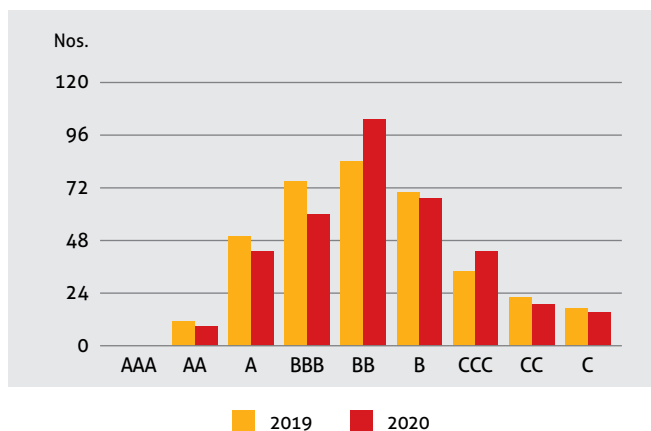
RISK MANAGEMENT

Credit risk performance review

Net loans and advances have increased by 24.8% YOY basis to LKR 1,635.6 Bn. at the end of 2020 which represented 73% of the total assets in the Statement of Financial Position at the end of the reporting period. Asset quality of the loan portfolio shows marginal improvement from 3.3 to 3.2 by the year end of 2020 and still remains very comfortable level compared to the industry average of 4.9%. Adverse economic conditions that prevailed during most part of the year due to COVID-19 pandemic, loss of Markets too contributed to the slow growth of the loan book and deterioration of assets quality in whole industry.

Maximum credit exposure of People's Bank

RISK PROFILE OF CORPORATE CUSTOMERS



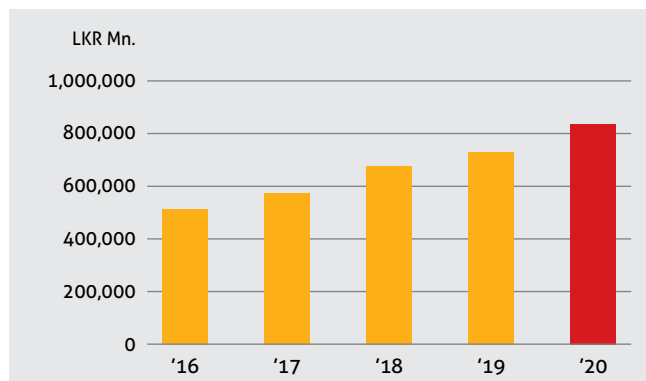
Risk rating	Number of corporate customers	
	31 December 2020	31 December 2019
AAA		
AA	9	11
A	43	50
BBB	60	75
BB	103	84
B	67	70
CCC	43	34
CC	19	22
C	15	17

Credit migration risk

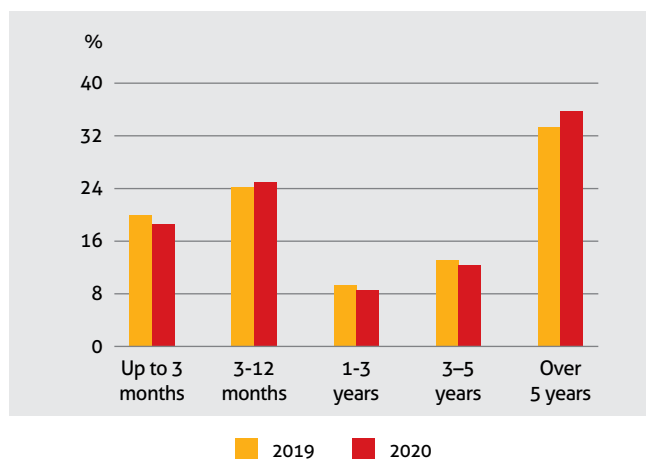
Migration risk is a credit risk that occurs due to the deterioration of the credit rating of a borrower over a period which results to trigger the decline of creditworthiness. This is evidenced by the down grading of the customer portfolio rating. Bank closely observes the migration of corporate customer portfolio in periodical manner. The number of corporate customers downgraded over the last four years is given in the table below:

Year	Number of customers in transition	Total percentage of downgraded customers
2017	346	16
2018	322	19
2019	318	20
2020	320	21

RISK WEIGHTED ASSETS



AGE ANALYSIS OF LOANS AND RECEIVABLES



RISK MANAGEMENT

Default risk

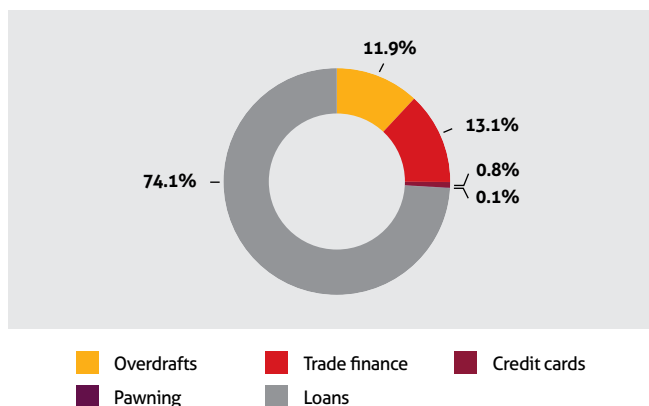
Default risk is the potential loss arising as a result of the borrower or counterparty not fulfilling the contractual obligations on a loan agreement.

A healthy portfolio was maintained through stringent credit evaluations, post-disbursement monitoring and a high collection ratio. Bank's non-performing loan (NPL) ratio of 3.2% for 2020 was well below the industry average of 4.9%.

Managing default risk

All our credit exposures are closely monitored on a continuous basis using risk management tools such as NPL/overdue analysis, rating migration analysis etc. Robust processes are in place to identify at an early stage, credit exposures which have high risk of loss. Such exposures are generally placed on a watch list and are managed closely to maximise recovery.

PRODUCT WISE IMPAIRMENT OF LOANS AND ADVANCES 2020



Concentration risk

Concentration risk is the level of risk in the Bank's loan and advances portfolio arising from concentration to an individual counterparty, industry sectors or geographic regions. As a State owned bank, People's Bank has acquired exposures to State Owned Enterprises (SOEs), pawning and housing financing aligned to Government's development agenda.

Concentration of large exposures (over LKR 100 Mn. as at 31 December 2020)

	Number of industry sectors	Number of individual customers	Direct exposure LKR Mn.	Indirect exposure LKR Mn.	Total LKR Mn.	Direct exposure as a percentage of balance sheet
With SOE	19	318	972,114	212,646	1,184,760	53.28
Without SOE	18	273	140,136	53,739	193,875	8.72

Position of Bank's Top 20 customers as at 31 December 2020

	Top 3 %	Top 5 %	Top 10 %	Top 20 %
Including SOE				
2019	58	64	73	82
2020	59	67	76	82
Excluding SOE				
2019	13	20	32	47
2020	11	15	25	41

Managing concentration risk

The measures adopted to monitor and control concentrations are the single borrower limit and the Herfindahl-Hirschman Index (HHI). HHI index is calculated for all exposures (the greater of limit or outstanding) above LKR 100 Mn. (direct and contingent) based on counterparty name and sector. The Bank's portfolio is segmented into 16 industry sectors. The table below shows the tolerance levels for each degree of concentration.

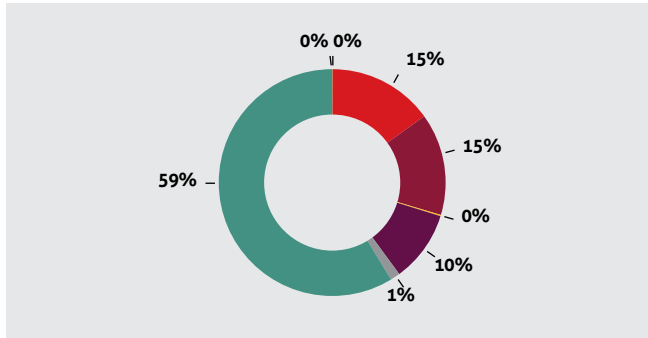
Metric	Low concentration	Moderate concentration	High concentration
HHI	<0.15	0.15 - 0.25	>0.25

People's Bank's quarterly position for the financial year 2020

	31 March 2020	30 June 2020	30 September 2020	31 December 2020
Name concentration (with SOE)	0.14	0.14	0.14	0.14
Name concentration (without SOE)	0.02	0.01	0.01	0.01
Sector concentration (with SOE)	0.22	0.22	0.21	0.22
Sector concentration (without SOE)	0.11	0.14	0.14	0.14

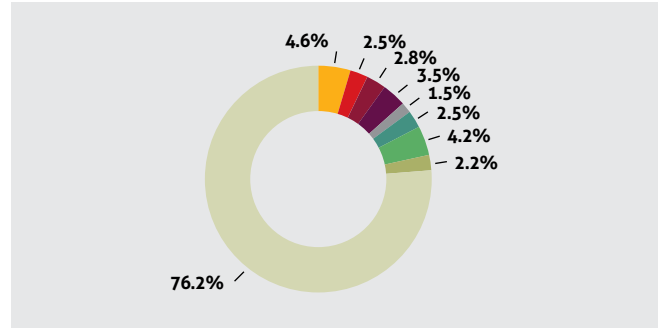
RISK MANAGEMENT

PRODUCT-WISE PORTFOLIO CONCENTRATION – 2020



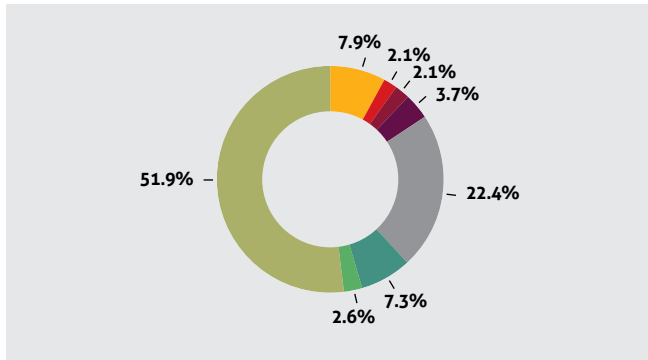
- Bills of exchange
- Overdrafts
- Trade finance
- Credit cards
- Pawning
- Staff loans
- Term loans
- Others

GEOGRAPHIC CONCENTRATION – 2020



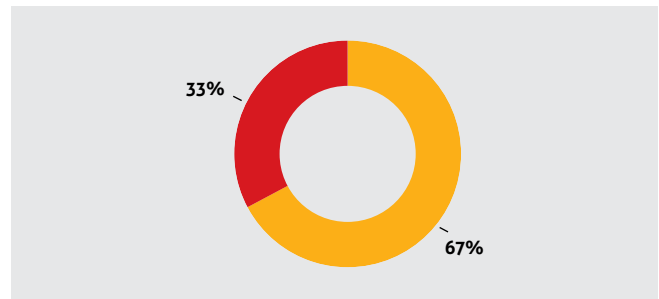
- Central province
- Eastern province
- North Central province
- North Western province
- Northern province
- Sabaragamuwa province
- Southern province
- Uva province
- Western province

SECTOR-WISE PORTFOLIO CONCENTRATION – 2020



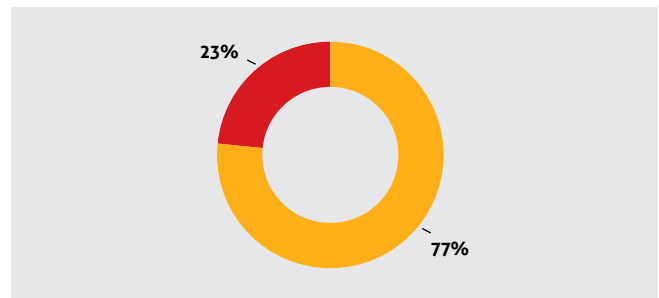
- Agriculture, forestry and fishing
- Manufacturing
- Tourism
- Transport
- Construction
- Traders
- New economy
- Others

CONCENTRATION OF LARGE EXPOSURES INCLUDING SOEs (FACILITIES OVER LKR 100 MN.) – 2020



- Large exposures
- Others

CONCENTRATION OF LARGE EXPOSURES EXCLUDING SOEs (FACILITIES OVER LKR 100 MN.) – 2020



- Large exposures
- Others

RISK MANAGEMENT

Credit risk stress testing

Credit risk stress testing is conducted to determine the how certain scenarios impact the Bank's capital adequacy levels. The stress testing report is forwarded to the BRMIC for review.

Increase in NPLs	Magnitude of shock -5%	Magnitude of shock – 10%	Magnitude of shock – 20%
Revised core capital ratio	9.40	9.28	9.02
Revised total capital ratio	15.35	15.22	14.97
Adverse movements within NPL Categories	Magnitude of shock – 50%	Magnitude of shock – 80%	Magnitude of shock – 100%
Revised core capital ratio	9.22	9.04	8.92
Revised total capital ratio	15.17	14.99	14.86
Fall in the FSV of collateral held by the Bank	Magnitude of shock – 5%	Magnitude of shock – 10%	Magnitude of shock – 15%
Revised core capital ratio	9.41	9.29	9.16
Revised total capital ratio	15.35	15.23	15.11
Slippage of performing loans to NPLs	Magnitude of shock – 1%	Magnitude of shock – 2%	Magnitude of shock – 3%
Revised core capital ratio	9.01	8.50	7.99
Revised total capital ratio	14.96	14.45	13.93
Defaults by large borrowers	Magnitude of shock – 5%	Magnitude of shock – 7.5%	Magnitude of shock – 10%
Revised core capital ratio	9.35	9.26	9.18
Revised total capital ratio	15.30	15.21	15.12

Credit risk review for 2020

Net loans and advances is reported at LKR 1,630.3 Bn. at the end of 2021 which represented 73% of the total assets in the Statement of Financial Position at the end of the reporting period. Asset quality of the loan portfolio shows marginal improvement from 3.3 to 3.2 by the year end of 2020 and remains positive position level compared to the industry average of 4.9%. Adverse economic conditions that prevailed during most part of the year due to COVID-19 pandemic, loss of Markets too contributed to the slow growth of the loan book and deterioration of assets quality in whole industry.

Market risk

Market risk is the probable loss that could arise due to movement in market driven variables such as interest rates, exchange rates, equity and commodity prices. The Bank's key market risk categories are interest rate risk, foreign exchange risk, equity risk and commodity risk.

People's Bank is exposed to market risk mainly from the interest rate risk arising from trading and non-trading books and its exposure to gold prices through its pawning portfolio. Bank's exposure to foreign exchange risk is moderate due to proprietary trading and foreign currency denoted transactions of the Bank. Exposure to equity risk is limited due to the low trading portfolio.

Objectives of market risk management

- Optimise the risk-reward relationship of business units within the predefined risk appetite.
- Avert exposure to unacceptable losses.
- Ensure all operations of the Bank are within the defined risk appetites.

RISK MANAGEMENT

Market risk exposure of People's Bank

	2020		2019	
	Trading book LKR Mn.	Non-trading book LKR Mn.	Trading book LKR Mn.	Non-trading book LKR Mn.
Assets				
Treasury Bills	44,999	16,688	79,198	169,781
Treasury Bonds	1,164	327,355	126	111,155
Sri Lanka Development Bonds	-	4,771	-	3,703
GOSL Bonds	-	7,689	-	7,689
Other investments	263	24,589	191	18,421
Debentures	-	43,558	-	22,714

Governance of market risk management

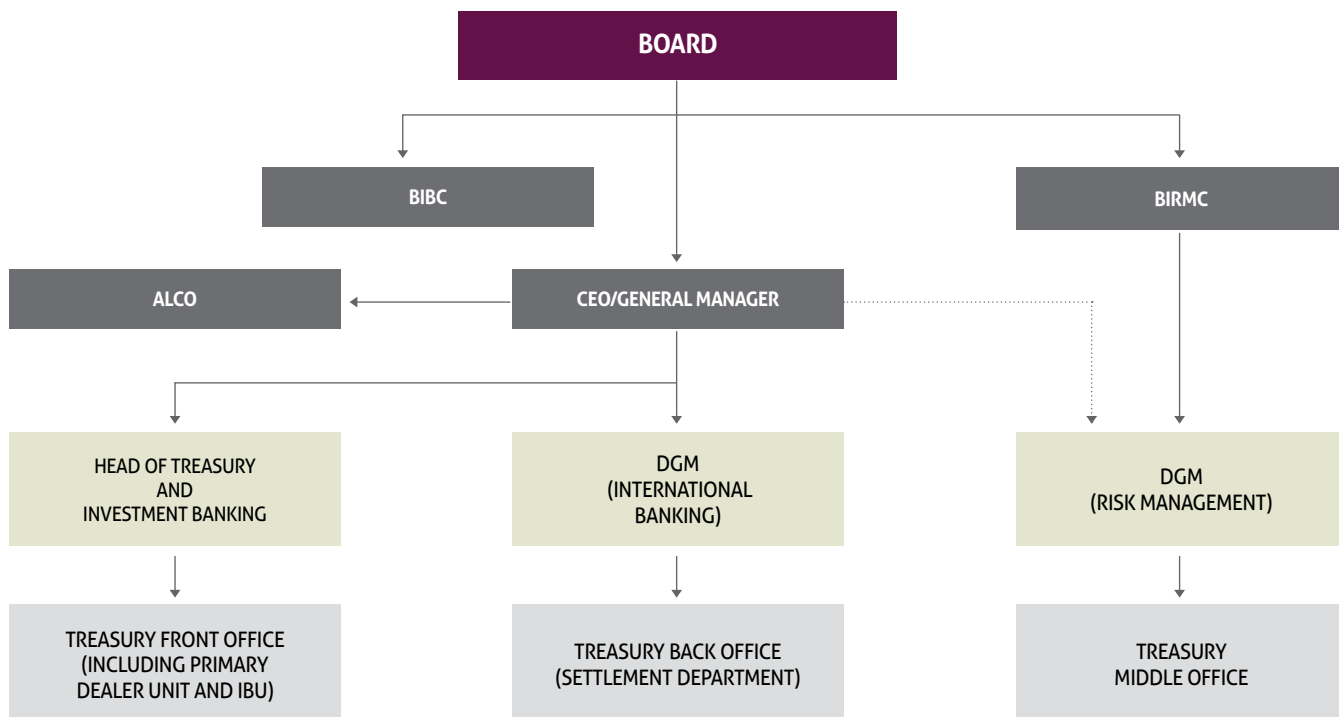
At Board level, the BIRMC has the responsibility to monitor the Bank's market risk exposure, formulate policies and risk appetite limits and provide recommendations to the Board on management of market risk.

At executive level, the Asset Liability Committee (ALCO) is responsible to implement the market risk management framework and maintain

the market risk exposures within the defined risk appetite. The Risk Management Department is responsible for the daily risk management activities, including market risk assessment, monitoring and reporting.

The Treasury Middle Office (TMO) measures and monitors the Bank's treasury transactions independently from the Treasury Front Office and Back Office functions. The TMO ensures compliance to risk limits set by the Board.

Organisational structure for market risk management



RISK MANAGEMENT

Managing market risk

A combination of policies, risk assessment measures and risk limits are used to manage the market risk.

1. Policies

The Bank's market risk management policy framework includes several policies including the asset and liability management policy, treasury management policy, foreign exchange risk policy and stress testing policy. These policies provide the framework for risk for their identification, assessment, mitigation, monitoring and reporting of all market related risks.

2. Risk assessment

The tools adopted for market risk assessment include, Value at Risk (VaR), duration gap, sensitivity analysis and stress testing. The valuation rates and methodologies are subject to independent verification.

3. Market risk limits

Market risk limits are assessed and recommended to ALCO and thereafter to BIRMC approval. Limits such as open position limits, counterparty limits, and dealer limits are defined based on approved market risk limits. The limits are monitored based on product, sector, credit rating and geography. The TMO monitors performance against the limits and reports to ALCO fortnightly. These limits are regularly reviewed by the ALCO based on potential market dynamics and the limits are revised to narrower bands if necessary.

Market risk limits and positions as at 31 December 2020

Market risk	Market risk appetite	
	Approved limit	Year ending 31 December 2020
Fx Net Open Position	USD+ 10 Mn. USD - 25 Mn.	Complied
Value at Risk (VaR) (Conf. Level 99%, 1 day)	USD 250,000	Complied
Cumulative Losses	USD 175,000	
-Fx Trading	LKR 25 Mn.	Complied
-FIS Trading (realised)	LKR 500 Mn.	
(unrealised)		
Forward Fx Gap Limit	USD 1,200 months millions	Complied
GOSL Securities -Trading	LKR 250 Bn.	Complied
-Investment	LKR 350 Bn.	Complied
-AFS	LKR 20 Bn.	Complied
Sri Lanka Development Bonds (SLDB)	USD 750 Mn.	Complied
Interbank Borrowings - Total limit	USD 1,007 Mn.	Complied
- Short term limit	USD 252 Mn.	Complied
Investment value of Share Trading Portfolio	Port1: LKR 1,000 Mn. Port2: LKR 1,000 Mn.	Complied Complied
Stop Loss Limit (Share Trading)	40%	Complied
Percentage of shares on the S&P SL20 Index	Min 25%	Complied
Gilt Unit Trust	LKR 2.5 Bn.	Complied
Debentures	LKR 5 Bn.	Complied
Interest Rate Risk (DGap+VaR on Fwd FX)	LKR 10.6 Bn.	Limit breached*

*Increase of HTM portfolio (334 Bn.) and its duration (0.52) resulting high D_A (Asset Duration)

RISK MANAGEMENT

4. Action trigger points

The risk thresholds that trigger specific management action are specified, in order to ensure market risk exposures are maintained within the levels defined by the risk appetite statement.

Market risk review

Despite the prevailing COVID-19 situation, the Bank manages and mitigates its market risk properly by ensuring stringent policies and procedures which are in place to manage various aspects that contribute to market risk through a well-defined governance structure which allowed for market risks to be identified, assessed, controlled and reported to ensure that the Bank operates within the allocated risk appetite levels. Bank's Treasury has complied with approved limits in place throughout 2020, managing the overall market risk although the socio-economic impact of COVID-19 pandemic situation has a direct and substantial impact on the Bank's normal business/operations to a certain extent. The Bank has strictly complied with the guidelines and directives issued by the Government, the Central Bank of Sri Lanka in a professional manner by reviewing the market condition regularly.

Interest rate risk (IRR)

The Bank's exposure to interest rate risk arises as a result of the net interest income being impacted by extreme fluctuations in market interest rates. This has a potential impact on the underlying interest bearing assets, interest bearing liabilities and off-balance sheet items.

Sub-categories of interest rate risk:

- Repricing risk – arises due to the timing difference in repricing of Bank's assets and liabilities with varying maturities.
- Basis risk – arises from the differences in actual interest margin and expected interest margin of the banking book and the implied cost of funds.
- Yield curve risk – arises from negative impact on the Bank's earnings/asset values due to shifts in the yield curve

Earnings at risk over one year horizon (net impact of 1%)

	Up to 1 month	1-3 months	3-6 months	6-12 months
Net assets (LKR Mn.)	(105,703)	(58,950)	(35,292)	(513,718)
Loss for change in 1% (LKR Mn.)	(43)	(98)	(132)	(3,853)

Managing interest rate risk

The approval of the risk appetite for interest rate risk and setting the overall limits for VaR and Earnings at Risk (EAR) vested with the Board.

The guidelines for identifying, measuring, managing and reporting compliance of all interest rate risk positions in the banking and trading books are provided by the Bank's market risk policy. The Treasury is responsible for managing the interest rate risk within the risk appetite whilst the Middle Office is responsible for monitoring the interest rate risk.

Techniques such as Duration Gap Analysis, VaR and Earnings at Risk (EAR) are adopted to measure the interest rate risk. The duration gap and overall exposure to interest rate risk is ascertained by grouping rate sensitive assets and liabilities based on their maturity period.

The ALCO is responsible for repricing the Bank's asset and liability portfolio and continuous monitoring of maturity mismatches and trends in market interest rates. The potential impact on Bank's earnings and capital due to changing economic indicators is gauged by regular stress testing on IRR exposures of the banking and trading books.

Every exposure is measured in Sri Lankan rupees and the totals of all currencies are aggregated after calculating the net total of each maturity band for each currency. Currencies that exceed 25% of total deposit liabilities are reported separately.

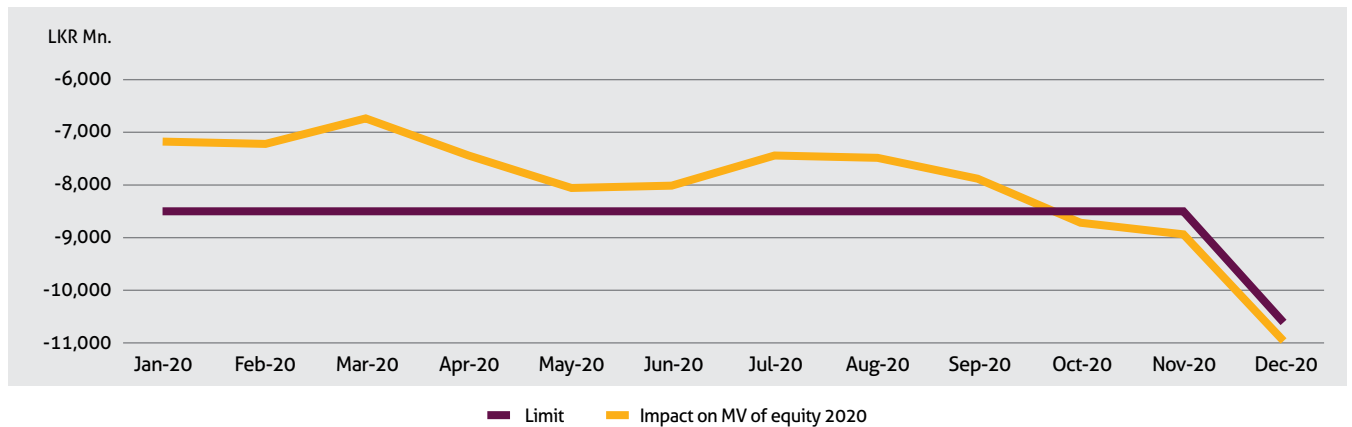
Interest rate risk is measured and monitored monthly and taken up for discussion at the ALCO.

RISK MANAGEMENT

ALM mismatches for 2019 and 2020

	Up to 1 month LKR Mn.	1-3 months LKR Mn.	3-6 months LKR Mn.	6-12 months LKR Mn.	1-3 years LKR Mn.	3-5 years LKR Mn.	Above 5 years LKR Mn.
2020							
Rate sensitive assets	226,910	286,110	236,350	456,885	148,707	169,317	535,889
Rate sensitive liabilities	332,581	336,345	262,878	963,984	33,619	9,951	75,812
Period gap	(105,672)	(50,235)	(26,528)	(507,099)	115,088	159,366	460,077
Cumulative gap	(105,672)	(155,906)	(182,435)	(689,533)	(574,445)	(415,080)	44,997
2019							
Rate sensitive assets	170,844	201,114	242,899	327,666	150,614	186,259	418,108
Rate sensitive liabilities	285,516	260,021	327,152	766,588	17,384	6,521	144,442
Period gap	(114,672)	(58,907)	(84,253)	(438,922)	133,230	179,738	273,666
Cumulative gap	(114,672)	(173,579)	(257,832)	(696,755)	(563,524)	(383,786)	(110,120)

IMPACT ON MARKET VALUE OF EQUITY DUE TO 1% ADVERSE INTEREST RATE CHANGE USING DURATION GAP ANALYSIS – 2020



RISK MANAGEMENT

IRR stress testing

	Magnitude of shock - 0.25%	Magnitude of shock - 0.50%	Magnitude of shock - 1.00%
2020			
Impact on earnings (LKR Mn.)	2,736	5,471	10,942
Revised overall CAR (%)	15.14	14.82	14.16
2019			
Impact on earnings (LKR Mn.)	1,992	3,982	7,970
Revised overall CAR (%)	14.17	13.87	13.28

Interest rate risk review

Interest Rate Risk arises from the possibility that adverse movements/fluctuations in interest rates which will affect the exposure of Bank's financial condition and the future cash flows or fair values of financial instruments. Accepting this risk is an integral part of the banking business and may even be an important source of profitability and shareholder value. The Bank has taken adequate measures to identify, monitor, control and reporting the interest rate exposures primarily through ensuring compliance to the prescribed limits. Bank carries a significant portfolio of Government Securities and the amount of risk associated with same depends on how sensitive its prices are to interest rate changes in the market. Supervision and close monitoring is in place to ensure the adherence to all internal and regulatory risk mitigation initiatives, trends in market interest rates and thereby managing the interest rate risk in a prudent manner.

Foreign exchange risk

Foreign exchange (FOREX) risk arises as a result of Bank's earnings and/or capital being impacted due to adverse fluctuations in exchange rates. The Bank's exposure to FOREX risk arises from foreign currency denominated transactions such as import/export transactions and remittances and proprietary trading.

Managing foreign exchange risk

Foreign exchange transactions are governed by a stringent regulatory framework. Whilst the CBSL sets the approval mechanism and limits, the Bank set stringent volume limits, within the regulatory confines and limits defined by ALCO on open positions for individual currency exposures and aggregate exposures. Risks arising from FOREX maturity gaps within the Bank's risk appetite are managed through forward maturity gap limits. The Treasury Department is responsible

for the overall management of FOREX risk. The clear segregation of duties between the Front, Middle and Back Office functions of the Treasury Department ensure an effective internal control mechanism. Monitoring of open positions, asset liability maturities, currency exposures and the aggregate exposure are done by the middle office independently.

VaR calculations and stress testing are carried out on portfolios exposed to FOREX risk. Parallel VaR calculations are conducted by the Bank's Treasury Management System (based on Finacle) and the internationally accepted Bloomberg system. The potential impact on Bank's profitability and capital adequacy levels are measured through stress testing.

Position as at 31 December 2020

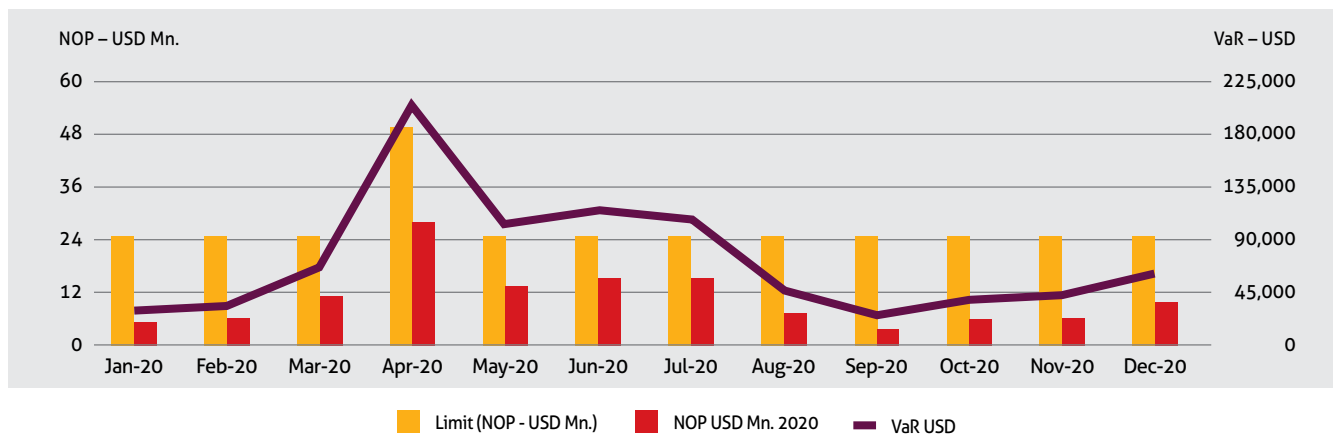
Currency	Net exposure FC equivalent '000	Net exposure rupee equivalent '000
US dollar	(12,721)	(2,390,525)
Euro	66	15,131
Great Britain pound	39	9,884
Japanese yen	(5,027)	(9,150)
Singapore dollar	(26)	(3,665)
Other	-	122,443

Exchange rate risk stress testing

	Magnitude of shock - 5%	Magnitude of shock - 10%	Magnitude of shock - 15%
2020			
Impact on earnings (LKR Mn.)	141	282	423
Revised overall CAR (%)	15.46	15.44	15.42
2019			
Impact on earnings (LKR Mn.)	137	273	410
Revised overall CAR (%)	14.45	14.43	14.41

RISK MANAGEMENT

MONTH END FX NOP AND DAILY VAR DURING – 2020



Exchange risk review

Foreign Exchange risk is the potential loss arising from fluctuations of value in a financial instrument due to changes in foreign exchange rates which is also a financial risk that exists when a financial transaction is denominated in a currency other than the domestic currency. Bank has imposed several limitations in relation to FX transactions, some of which are in line with the regulatory guidelines as well to mitigate and manage the foreign exchange risk. Ensuring the strict adherence to the stipulated limits by the Treasury Staff and thereby the FX exposure is maintained well within the set limits at all times has enabled the Bank to manage the foreign exchange risk prudently. Due to prevailing COVID-19 situation the uncertainty of currency fluctuations, the Bank's policy is to maintain a low currency risk by holding foreign currency exposures applying individual currency limits and the overall exposure is managed within the Net Open Position (NOP) limit defined by the regulator. Stringent risk tolerance limits are defined and are independently monitored on a daily basis for the treasury dealers to operate within these boundaries to mitigate the risk emanating through these exposures by ensuring that potential losses arising out of fluctuations in FX rates are minimised and maintained within the Bank's risk appetite.

Equity price risk

A decline in market value of a security or a portfolio due to fluctuations in equity prices, gives rise to equity price risk. The Bank's exposure to equity price risk stems from the available-for-sale investment portfolio, excluding the strategic investments in subsidiaries. Bank's equity risk exposure is relatively limited as a result of the low investments in equity shares.

Managing equity risk

The formulation of policies related to investments and managing of the investments within the defined risk appetite is done by the Board Investment Committee (BIC). The procedures, tools and techniques for managing equity risk including volume and stop loss limits are clearly articulated by the Board approved, Investment Banking Policy Manual. The movement in share market prices, performance of the entities and the macroeconomic conditions are regularly monitored by the BIC.

Independent evaluations on proposed equity transactions, impairment assessments and exposures against limits are carried out by the market risk function operating under the Bank's Risk Management Department. The Unit also maintains independent oversight over the non-traded equity risk framework.

Stress testing of equity risk

	Magnitude of shock - 5%	Magnitude of shock - 10%	Magnitude of shock - 15%
Max market value of equity portfolio	53	106	212
Fair value of strategic equities	41	82	164
Total impact	94	188	376

RISK MANAGEMENT

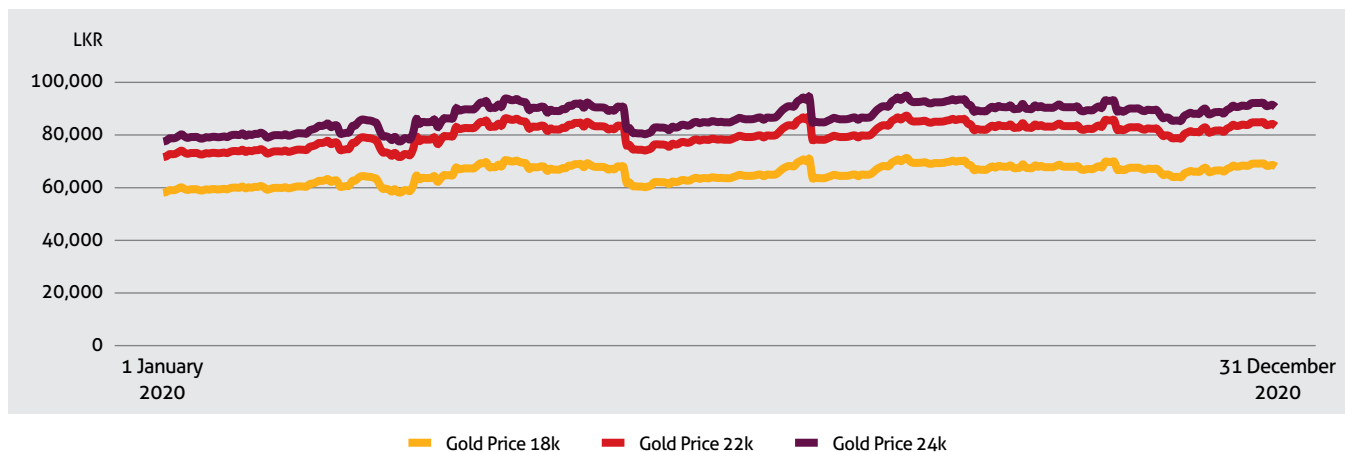
Equity price risk review

Equity price risk is the possible losses arising from prices or volatilities in individual equities. Although the equity market is highly vulnerable, the Bank's equity portfolio is insignificant compared to its overall asset portfolio and thus the risk emerging from the equity portfolio is negligible. Although the outbreak of COVID-19 has caused disruption to business and economic activities, and uncertainty to the global and local economy, continuous follow up of the economic conditions of country/globe, market perception on equity markets, has helped the IBU to correctly read the equity market and take strategic equity investment decisions. This, together with ensuring the strict adherence to the limits set by the Board of Directors has enabled the Bank to mitigate and manage the equity risk efficiently.

Commodity risk

People's Bank's exposure to commodity risk stems from the pawning portfolio, which holds gold collateral. The Bank holds a high market share in the pawning market. Gold is impacted by fluctuations in gold prices.

GOLD PRICE MOVEMENT IN 2020



Managing commodity risk

Commodity risk is managed through a meticulous process. A series of pre-disbursement measures are carried out including, determining the gold content of the pawned articles, conducting due diligence of customers, maintaining prudent loan to value ratios, continuous assessment of gold prices and competitor offerings and obtaining an insurance cover against losses arising from stolen articles.

The post-disbursement measures include, conducting independent valuation of pawned items regularly, daily verification of a sample of 5% and regular auctioning of unredeemed articles.

Commodity risk review

Commodity risk is the exposure to changes in prices and volatilities of commodities. The Bank has a negligible exposure to commodity price risk as the Bank is not engaged in commodity trading at present and its only exposure to commodity risk is associated with the Bank's pawning business. The Bank has been a pioneer of pawning activities

and its exposure is backed by gold, which is considered to be readily resalable. The Bank has taken measures to manage and mitigate the inherent risk in pawning by LTV ratio at a comfortable level at all times through assigning risk weights imposed by the regulator. In addition, gold market prices are periodically assessed and analysed and are monitored by ALCO along with competitor product features. The Bank has highly sophisticated equipment in their pawning centers to assess the gold accurately. Although the Bank staff handling pawning are well experienced and have the expertise, regular training is provided to such staff to update their awareness to new technology related to pawning activities and the risk areas to be concentrated on. Insurance coverage is in place for the pawning portfolio. Impairment provisions are made with market gold value while regular auctions are conducted to recover the defaulted advanced. Furthermore, the Bank has facilitated the customers to affect the repayments monthly basis as well to ease their financial burden and this can be done via our self-banking units as well. All these measures have enabled the Bank to manage and mitigate its commodity risk associated with the pawning activities prudentially.

RISK MANAGEMENT

Liquidity Risk

Liquidity risk arises due to the Bank's inability to meet its contractual obligations without incurring unacceptable losses. This generally occurs due to a loss of capital and/or income when converting a security or hard asset to cash.

Objectives of liquidity risk management

To enable the Bank to meet its funding commitments when they fall due, weather liquidity stresses and manage liquidity and funding risks within its risk appetite.

Managing liquidity risk

A well-articulated liquidity risk management framework is in place to ensure sufficient liquidity is maintained to meet its contractual obligations on time. The ALCO ensure compliance with internal liquidity targets and regulatory liquidity requirements by providing oversight, managing liquidity risks and continuous monitoring of the Bank's liquidity position. The Head of Treasury is responsible for the daily management of the Bank's funding and liquidity positions within the stipulated risk limits. The Bank's liquidity levels are continually monitored independently by the TMO and any breaches are reported. The performance of key liquidity indicators are regularly reviewed by the Board, BIRMC and the ALCO to ensure they are within the defined parameters.

Liquidity risk management framework

The key aspects of the liquidity management framework are:

1. Measuring liquidity

The Bank adopts the dual flow approach and the stock approach to measure liquidity. The mismatches of inflows and outflows in different time bands are analysed using the flow method, based on the maturity of assets and liabilities. The stock approach measures the liquidity using key ratios such as the loans to deposit ratio, commitments ratio (unused portion of overdrafts/unused interbank lines), statutory liquid asset ratio and cumulative mismatches.

2. Diversified funding base

The Bank sources liquidity from multiple sources, based on market conditions, regulatory considerations and interest rate movement trends. Deposits are the largest funding source amounting to 84.1% of the Bank's total funding base, followed by other borrowings (11.2%) and shareholders' funds (4.7%). The Bank has a relatively high proportion of savings, which is considered a quasi-stable source of funds.

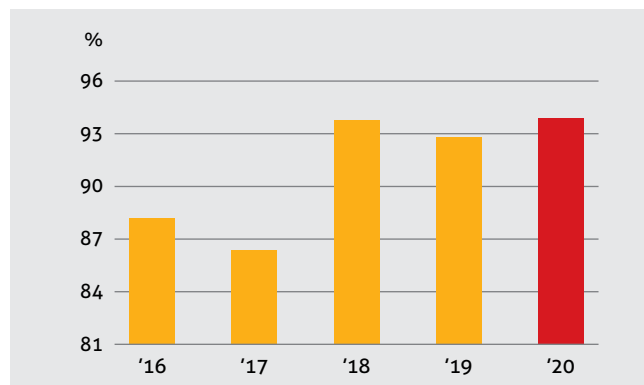
3. Contingency fund plan

The Bank has a comprehensive Contingency Funding Plan (CFP) to provide guidance on managing liquidity requirements in stressed conditions. This is to ensure protection of stakeholder interests and maintenance of market confidence in the event of a liquidity crisis. The CFP articulates specific trigger points for activation and the responsibilities of the CFP team, comprising the ALCO and the Head of Marketing and Research. The CFP will be activated in the following scenarios:

- Statutory liquid asset ratio falling below 20% over a month
- 25% increase in interbank call money rates for over seven consecutive days
- Over 50% increase in NPL ratio
- Larger than expected deposit withdrawals
- Consolidated AD ratio exceeding 105% for more than 15 days
- Call facilities being withdrawn by market participants or imposing a premium over the market rate for Bank's borrowings
- Credit rating downgraded by more than two notches

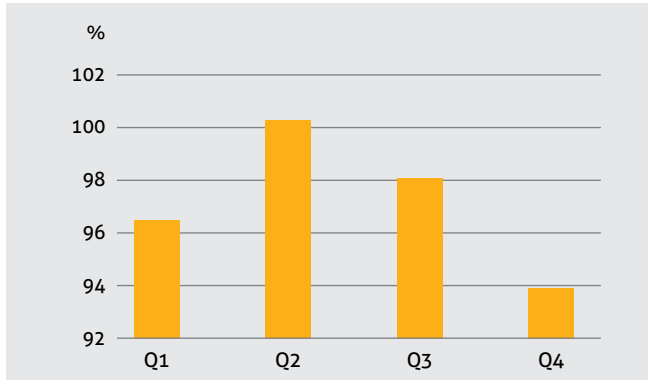
Key indicators	Position as at 31 December 2020
Loans to deposits ratio	
LKR	78.96
Foreign currency	218.67
Commitments ratio	
Statutory liquid asset ratio	
DBU	25.61
OBU	60.46

ADVANCES TO DEPOSITS RATIO BY YEAR

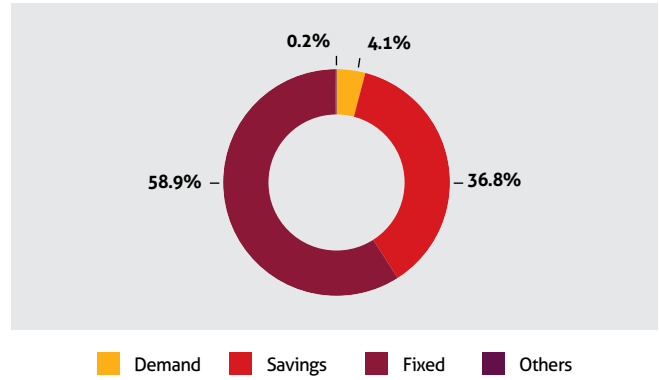


RISK MANAGEMENT

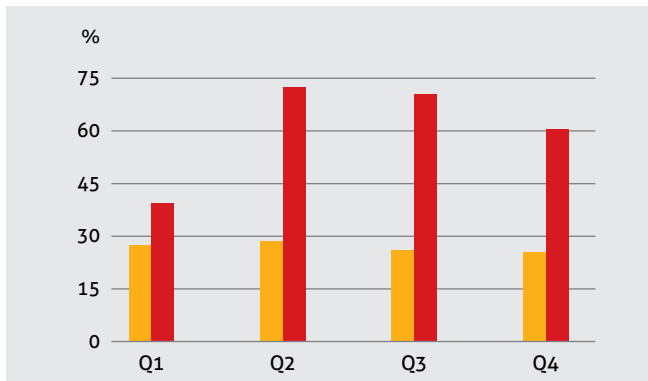
ADVANCES TO DEPOSITS RATIO – 2020



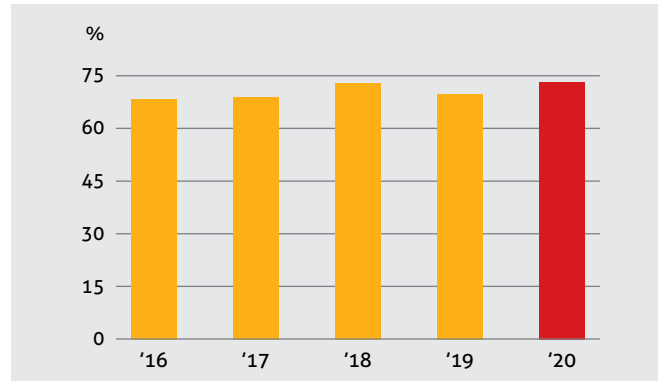
DEPOSIT BREAKDOWN – 2020



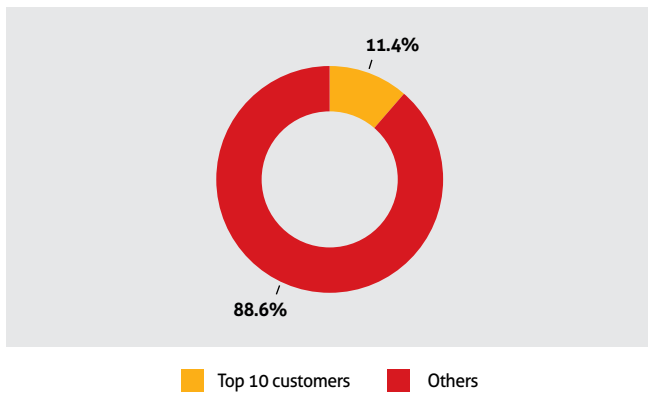
STATUTORY LIQUID ASSETS RATIO – 2020



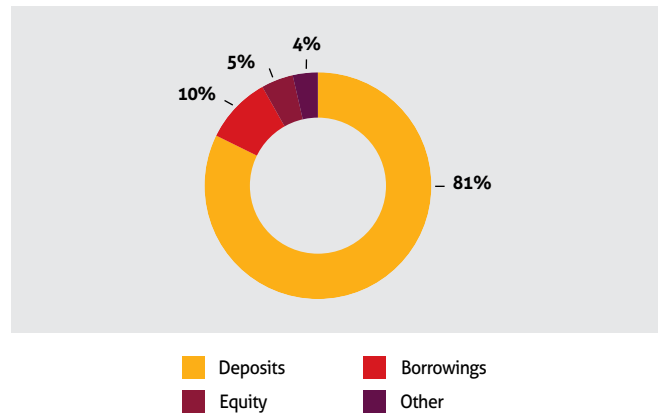
NET LOANS TO TOTAL ASSETS



DEPOSIT CONCENTRATION – 2020

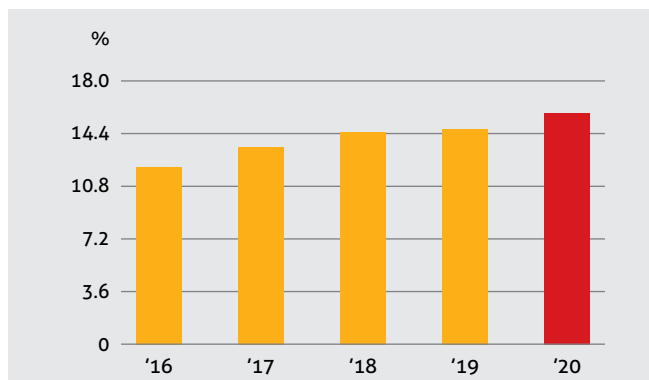


FUNDING DIVERSIFICATION – 2020



RISK MANAGEMENT

TOTAL CAPITAL ADEQUACY RATIO



Liquidity risk review

Liquidity risk is the potential that the Bank either does not have sufficient liquid financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at excessive cost. Throughout the COVID-19 crisis, the bank has maintained a Capital Adequacy Ratio above regulatory minimum levels, providing resilience risks and Statutory Liquid Assets Ratios for DBU and OBU are at comfortable levels which are above the required ratio of 20%. Liquidity Coverage Ratios for all currency and local currency were also above the required regulatory ratios throughout the year. The level of the Bank's aggregate liquid reserves is in accordance with local regulatory minimum liquidity requirements despite with COVID-19 situation.

Liquid asset stress test

DBU	Balance as at 31 December 2020	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock		5%	10%	15%
Liquid assets (LKR Mn.)	463,931	463,931	463,931	463,931
Total liabilities (LKR Mn.)	1,811,649	1,811,649	1,811,649	1,811,649
Fall in the liabilities (LKR Mn.)		90,582	181,165	271,747
Revised liquid liabilities (LKR Mn.)		1,721,067	1,630,484	1,539,902
Revised liquid assets (LKR Mn.)		373,349	282,766	192,184
Liquid assets ratio after shock	25.61%	21.69%	17.34%	12.48%
OBU	Balance as at 31 December 2020	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock		5%	10%	15%
Liquid assets (USD '000)	1,165,688	1,165,688	1,165,688	1,165,688
Total liabilities (USD '000)	1,927,882	1,927,882	1,927,882	1,927,882
Fall in the liabilities (USD '000)		96,394	192,788	289,182
Revised liquid liabilities (USD '000)		1,831,488	1,735,094	1,638,700
Revised liquid assets (USD '000)		1,069,294	972,900	876,506
Liquid asset ratio after shock	60.46%	58.38%	56.07%	53.49%

RISK MANAGEMENT

Operational Risk

Operational risk is the direct or indirect risk of loss resulting from inadequate or failed internal processes, people and systems or from external events such as natural disasters, social or political events. As per the Basel II definition, operational risk includes legal risk but excludes strategic and reputation risk. Operational risks exist in the natural course of business activities, products and processes.

The Bank is exposed to operational risks such as technology risk, people risk and legal risk.

Objectives of operational risk management

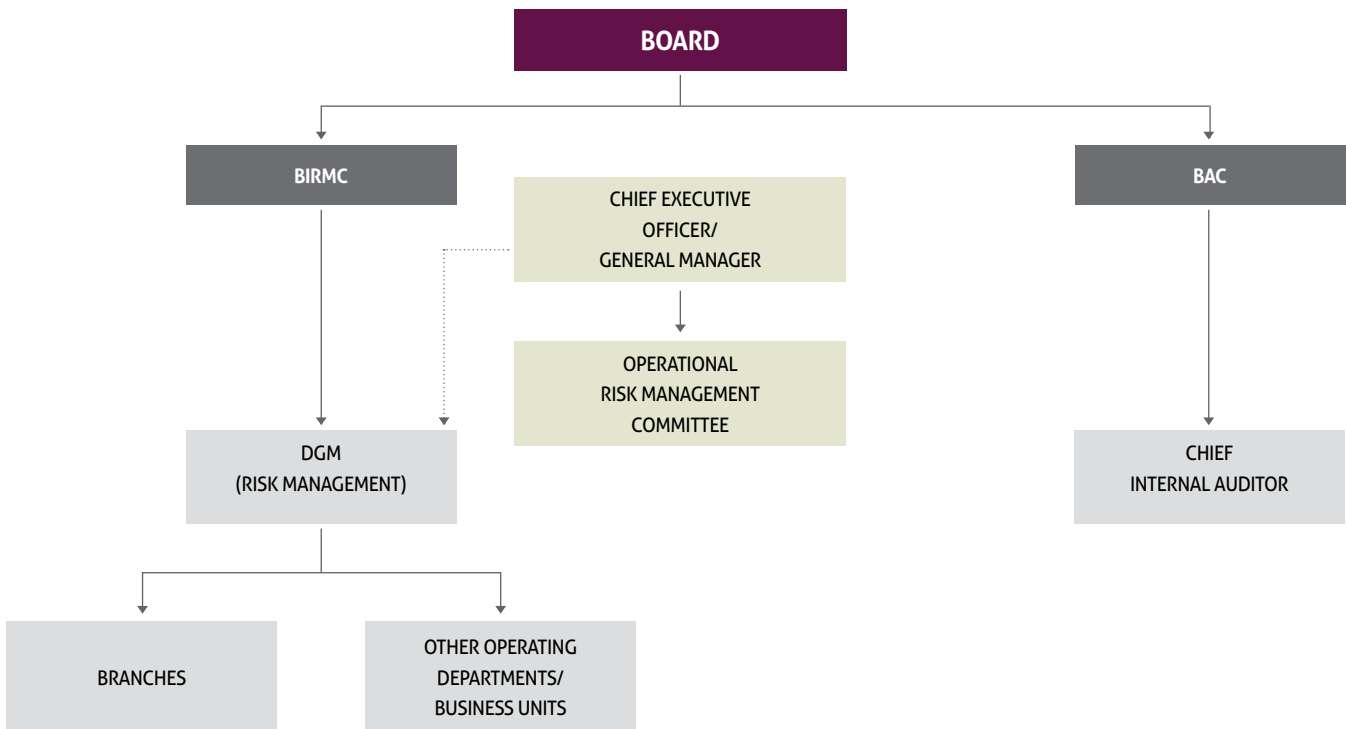
- Avoid potentially large risk losses by minimising losses from operational failure.
- Manage risk cost-effectively across the Bank by developing a common understanding of operational risk across multiple functions and business units.

- Effectively respond to critical and catastrophic risks by building and improving internal capabilities.
- Realise cost savings through better management of internal resources and effective control of Bank's operations.

Managing operational risk

As projected by Basel II, operational risks have been categorised to seven broad areas. The policies, structures and processes to managing operational risk exposure is articulated by the Bank's Operational Risk Management Framework. The Board is supported by the BIRMC to formulate policy and implement a robust operational risk management framework within the Bank. The branches and business units form the first line of defence, to identify operational risks at the point of origination. They report the operational loss events to the Risk Management Division which maintains a database. The Bank has instituted structured mechanisms to measure, assess and report operational risks within the Bank. The Internal Audit conducts periodic reviews of the entire operational risk management process across the network to provide an assurance to the Board and Senior Management.

Governance structure of operational risk management function



RISK MANAGEMENT

i. Identification and assessment of operational risk

The Risk Management Department together with business units identify potential areas of operational risk. All staff members are given training on operational risk exposures and are engaged proactively to identify and assess these risks.

Key business units conduct Risk and Control Self-Assessments (RCSA) to evaluate exposures according to defined operational risk parameters. Along with loss events and near misses reported by business units, the key findings of RCSA help to identify and devise action plans for potential gaps in risk management. Operational risk is assessed on new products, processes and activities on an ongoing basis.

ii. Limits and tolerance levels

The Board has defined specific limits and tolerance levels for operational risk indicators in the Bank's Risk Appetite Statement. These include the total value of operational losses as a percentage of operational expenses, the number of internal and external loss events, and the percentage of branch audits rated less than average. Regular reporting to the BIRMC and Board helps to ensure corrective actions are initiated when needed.

iii. Mitigating operational risk

Risk mitigation policies and programmes are implemented to maintain a sound operating environment within the Bank. These include:

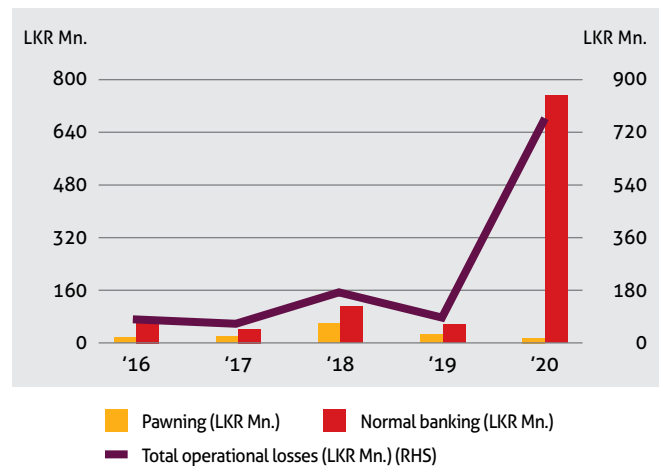
- Implementing a comprehensive framework of operational risk policies and procedures
- Crisis management procedures and disaster recovery plans to ensure business continuity
- Segregation of duties
- Transferring the risk of damages to physical assets due to natural disasters or fire and theft of pawned gold articles through insurance
- Adopting stringent measures to select and monitor outsourced partners

- Creating a culture of risk awareness by providing continuous training to staff
- Prior to launch of new products and services, conducting a thorough analysis of the potential impact of operational risk
- Operational Risk Management system in compliance to Basel II guidelines

Risk reporting

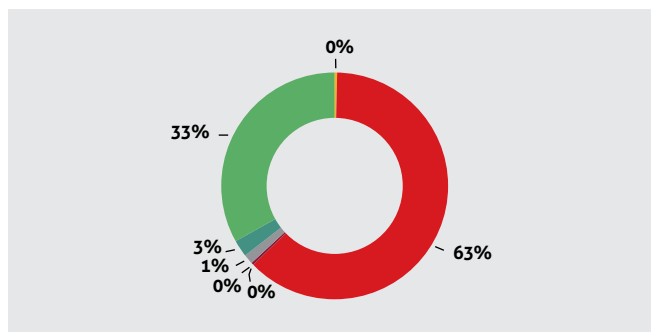
Systematic identification of root cause, trends and frequency of risks are facilitated by maintaining a database of operational risk events, losses and near misses by the Risk Management Department. Information of significant loss events, emerging issues, risk oversight, monitoring and reviewing of risks are reported through quarterly reports. This information is included in the risk committee reports which are presented to the BIRMC and/or ORMC. Based on the potential impact and frequency of the risk, control failures are reported to the Operational Risk Management Committee.

OPERATIONAL LOSSES



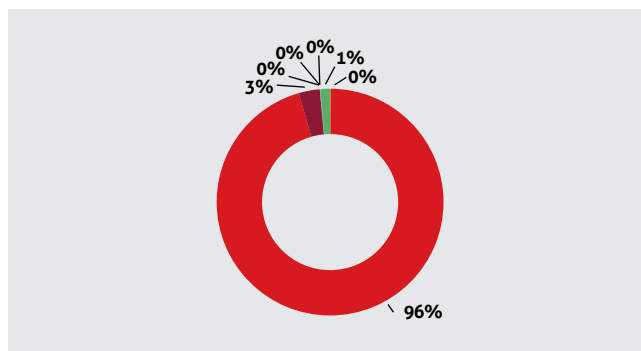
RISK MANAGEMENT

OPERATIONAL LOSSES BY EVENT (NUMBERS) – 2020



- Internal frauds
- External frauds
- Clients, Products and business practices
- Employment practices and workplace safety
- Damage to physical assets
- Business disruption and system failure
- Execution, delivery and process management

OPERATIONAL LOSSES BY EVENT (VALUE) – 2020



- Internal frauds
- External frauds
- Clients, products and business practices
- Employment practices and workplace safety
- Damage to physical assets
- Business disruption and systems failure
- Execution, delivery and process management

Loss event	2020				2019			
	Number	Percentage of total	Value LKR Mn.	Percentage of total value	Number	Percentage of total	Value LKR Mn.	Percentage of total value
Internal frauds	1	0.34	0.43	0.06	1	0.21	4.9	5.80
External frauds	181	62.41	735.5	95.50	311	66.60	52.63	62.31
Employment practice and workplace safety	0	0.00	0	0.00		0.00		0.00
Client, product, and business practices	1	0.34	23.01	2.99	2	0.43	0.67	0.79
Damage to physical assets	4	1.38	0.51	0.07	20	4.28	2.05	2.43
Business disruptions and system failures	7	2.41	0.23	0.03	12	2.57	1.15	1.36
Execution, delivery and process management	96	33.10	10.5	1.36	121	25.91	23.06	27.30
Total	290	100.00	770.18	100.00	467	100.00	84.46	100.00

RISK MANAGEMENT

Operational risk review

The above chart depicts the comparison of operational losses in the past two years under the Basel II loss event type, both in terms of number of events and value.

The loss events recorded from external frauds were the most significant source of operational losses for the year 2020 which comprise mainly of People's Bank Debit Card fraudulent transactions originated through automatic fuel dispensers in Japan.

The total losses recorded for the year 2020 was LKR 770.18 Mn., out of which LKR 718.4 Mn. was from the above fraudulent act which is an exceptional loss event for the Bank.

Apart from the above, the total Operational losses reported for the year was only LKR 51.78 Mn.

Technology risk

This is the risk of financial loss, regulatory sanctions or reputational damage due to breaches of confidentiality, integrity or lack of information quality. Technology is a key competitive advantage to achieve operational efficiency, speed, cost savings and accuracy. As a leader in digitalisation, the Bank is inherently exposed to technology risk given its high dependence on information technology. The Bank is exposed to a range of ICT related risks including cyber risks such as hacking and theft of information, systems breakdowns and failures, technological obsolescence and inadequate infrastructure to support business volumes.

The Board IT Committee, Information Security Steering Committee, Information Security Operations Committee provides oversight to the Bank's IT management framework. The committee recommends IT strategies, policies and procedures, assesses the need for system integrations within the Bank and the use of new and advanced software and hardware.

To ensure the robustness of information systems within the Bank, the Risk Department and the IT Department regularly monitors key IT risk indicators. Corresponding risk thresholds have been defined to direct management attention for appropriate corrective measures.

IT risk indicators of the Bank

Category	Systems	Actual availability	Availability as a percentage of total working hours and thresholds	
High critical	<ul style="list-style-type: none"> - Central ATM Switch - NOVUS Switch - Core banking system/SIBS interface - SWIFT - Credit/Debit card management system - SLIPS 	99.92%	>99.9%	Green – Low risk
			97.5%-99.9%	Amber – Moderate risk
			<97.5	Red – High risk
Medium critical	<ul style="list-style-type: none"> - Image capturing and presentment system - Web remittance system - Finacle treasury - ATM (individual) - PRIME 4 - CIB/CMB/ORR - RIB/RMB - Express Banking - RLOS 	99.21%	>97.5%	Green – Low risk
			95%-97.5%	Amber – Moderate risk
			<95%	Red – High risk
Low critical	IHRM System	99.99%	>90%	Green – Low risk
			87%-90%	Amber – Moderate risk
			<87%	Red – High risk

RISK MANAGEMENT

Mitigating IT risk

- Placed all critical live and disaster recovery servers in highly secured certified data centres.
- Conducted disaster recovery tests for all critical systems at regular intervals.
- Maintaining all IT processes in compliance with the standard ISO/IEC 27001:2013 certification, the world's highest accreditation for information protection and security, from the International Organisation for Standardisation (ISO).
- Maintaining a well-established IT governance structure to prevent risk of data loss.
- Installation of fire protection and smoke detectors at the server rooms and UPS rooms.
- Disaster recovery plan to continue operations
- Segregation of the position of Information Security Officer from the IT Department to report to the Risk Management Department directly.
- Conduct Internal/External Vulnerability assessments for all systems including web based application and rectification of any issues found.

IT risk review

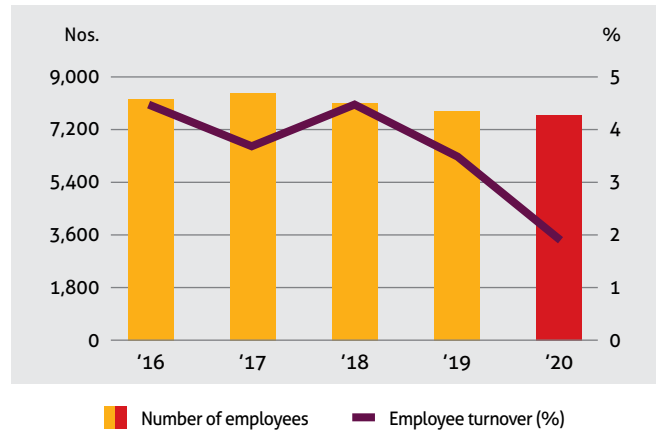
- Conduct routine and non routine risk assessments for all IT related processes and follow up the same through Information Security Operations committee.
- Periodical review of Information Security Policy Procedures of the Bank and get the board approval
- Reviewing of access logs for critical systems and critical infrastructure.
- Reviewing of user access rights of critical systems
- Conduct code reviews for all critical systems, developed in house or out sourced.

People risk

People risk is the potential losses that could arise due to inappropriate employee activity, inadequate human resources, and Bank's non-compliance with employee related regulations. The Bank has setup comprehensive human resource policies and processes to manage HR related risks, ensure uniformity in employee practices across the Bank, adopt effective recruitment practices and continuously focus on enhancing employee value propositions.

Turnover of trained skilled staff impacts the competitiveness of the Bank, leading to deterioration in competency and productivity. Hiring qualified, competent individuals and retaining the high performing employees through a rewarding work environment is challenging as well.

NUMBER OF EMPLOYEES AND STAFF TURNOVER



People risk review

People are the most significant asset in any business as they are the central point in overall performance of the other assets. Thus anticipating and efficiently managing the people risk is highly important to the success of the Bank in sustainable Business Model. Hence having HR Development programs in place as an ongoing ensures up to date knowledge/skills of the staff which requires to enhance customer delivered value, and allows minimising the risk associated to the business due to lack of knowledge, product promotion strategies, etc. and will in turn result to increase reputation & brand image through customers. Furthermore, reducing the disruption to work, protecting the employees and their families from the financial difficulties, minimising staff turnover, maintaining healthy atmosphere with the working environment with emerging health pandemics etc. could be considered as highly concerns in managing the People Risk.

Legal risk

Legal risk is the risk of loss due to non-compliance with applicable regulations leading to incurring of penalties, fines and loss of reputation and the potential loss to earnings due to non-enforceability of contracts or documents.

Legal risk is managed by the Bank's Legal Department and proper internal procedures are followed when entering into contracts with clients. The business units are responsible, to ensure all legally binding agreements are duly signed by the compliance and legal divisions of the Bank.

Reputational risk

Reputational risk is an indirect loss arising from an event or incident that adversely affects earnings, assets and liabilities and brand value. Reputational risk is also driven by other risks such as credit, market, and operational risk etc.

RISK MANAGEMENT

The negative impact on the Bank's reputation has been low, as People's Bank has maintained an impeccable track record for nearly six decades as a premier State bank in Sri Lanka. Customer confidence is founded on a sound reputation which reflects the integrity of the Bank, the competence of staff and the high product quality.

The Bank monitors the reputation risk through early warning indicators. The customer complaint-handling unit, addresses all customer complaints efficiently and effectively. Even as the scope of reputation risk has widened due to social media, the Bank has implemented several measures to enable customers to forward their grievances. These include, the Bank's website, Facebook page, the call centre, email and the postal address.

Appropriate measures, including, communication policies, code of conduct, and ethics are also in place to be followed by employees across the Bank, without exception. The Bank's active engagement in Corporate Social Responsibility (CSR) activities, as a part of the corporate strategy, and the media presence in social media platforms helps to drive brand visibility.

Reputational risk is assessed through a comprehensive scorecard developed by the Bank based on the ICAAP guidelines.

Compliance risk

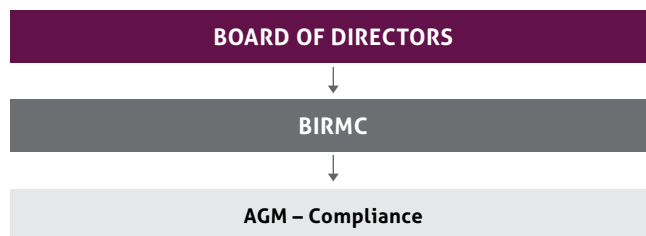
Compliance risk arises due to non-compliance with applicable laws, regulations, codes of conduct and standards of good practice resulting in financial loss and reputational loss. Compliance helps to maintain and enhance the reputation of the Bank.

The Bank has established a compliance function and implemented comprehensive internal policies, procedures and a sound governance framework to ensure employees comply with the applicable laws and regulations and best practices.

Objectives of managing compliance risk

- Increase Bank's reputation and brand value
- Enhance customer confidence and trust
- Facilitate smooth and efficient operations
- Strengthen employee integrity
- Offer products and services of the highest quality
- Augment the strength and stability of the Bank
- Strengthen the sustainability of the Bank

Compliance risk governance



The Board holds the highest responsibility to ensure compliance with relevant external regulations and internal guidelines and is duly supported by the BAC and BIRMC in its compliance functions. The compliance of the Bank is ensured by the dedicated Compliance Unit, reporting directly to the BIRMC. In addition to the Risk Management Department and the internal audit function, the Compliance Unit provides assurance to the Board on the Bank's overall level of compliance.

Bank's compliance risk is assessed through a five-point rating scale scorecard, in relation to internal best practices and external regulations. This scorecard is submitted to the BIRMC.

The dedicated Compliance Officer oversees the compliance status of the Bank through regular assessments and reports the status to the BIRMC.

The duties entrusted to the Compliance Department are twofold; mandatory compliance functions and ancillary compliance functions.

i. Mandatory compliance functions

- Safeguard the Bank from reputational risk by developing compliance policies and procedures to eliminate or minimise the risk of non-compliance with regulatory requirements.
- Develop a code of conduct/ethics for all employees, clearly articulating the best practices and monitor to ensure compliance at all levels.
- Implement an Anti-Money Laundering Policy aligned to Know Your Customer (KYC) regulations, to be adhered by all departments of the Bank.
- Maintain regular contact and cordial relationships with regulators based on clear and timely communication and mutual understanding.
- Nurture a culture of compliance within the Bank.
- Keep abreast with relevant legal and regulatory developments and facilitate effective implementation.

RISK MANAGEMENT

- Report to the Board all relevant regulatory developments and changes in laws that could give rise to compliance issues.
- Highlight any breaches related to compliance and work with the management to address and rectify them within an acceptable timeframe.
- Submit monthly compliance reports to the Central Bank of Sri Lanka related to compliance with Central Bank directives and guidelines and as stipulated by the law.
- Prepare and submit quarterly compliance reports to the Board Integrated Risk Management Committee (BIRMC) and the Board Audit Committee (BAC).
- Submit monthly compliance reports to the Board.
- Establish a Customer Charter based on directions issued by the Central Bank of Sri Lanka.
- Prepare, implement and monitor the Code of Best Practice on Corporate Governance based on the Central Bank Directive on Corporate Governance for Licensed Commercial Banks.
- Establish systems and controls to monitor transactions and report suspicious transaction to the Financial Intelligence Unit to prevent Anti-Money Laundering.
- Train staff members on compliance including Anti-Money Laundering and develop an e-learning module to facilitate training across the branch network.
- Prepare policies and implement procedures to minimise compliance risk and reputation risk including developing a Whistle-blowing Policy and a Code of Conduct.
- Maintain updated credit details of customers by liaising with the Credit Information Bureau.

ii. Ancillary compliance functions

- Provide advisory services to management and staff on regulatory, reputational and ethical matters.
- Promote compliance as a success enabler.
- Provide input in structuring new products and systems compliant with local regulatory requirements, internal compliance and ethical standards.
- Ascertain compliance with internal and external regulations by conducting assessments and reviews at regular intervals.
- Represent the compliance function in relevant internal and external committees.
- Clearly communicate policies on compliance to management and staff.

- Liaise with the Bank's internal and external audit function to address compliance issues.
- Follow up on compliance issues identified through audits.
- Liaise with the auditors and conduct random compliance audits on risk-based assessment.

Compliance reporting

The Board submits monthly compliance reports to the Compliance Department. These reports includes sign offs from the Heads of Departments and branches on statutory and mandatory requirements, events of non-compliance, employee training and branch assessments. A quarterly report is submitted to the BIRMC and BAC on any special compliance-related matters within the particular quarter.

Prevention of money laundering and terrorist financing

Money laundering and terrorist financing continues to receive significant attention as nations attempt to deal with the harmful legal, economic, and social consequences of criminal activities. People's Bank has taken every effort to prevent the rising prevalence of money laundering and terrorist financing by having stringent policies, procedures and control standards relating to client identification and due diligence, transaction monitoring, payment and name screening, investigating and reporting of suspicious activity, and evaluation of new products and services to prevent and/or detect activities that may pose risk to the Bank. Selected employees are trained through structured programmes and e-learning modules on areas such as anti-money laundering, Know Your Customer and customer due diligence. Unusually large and suspicious transactions are analysed, evaluated and reported to the Financial Intelligence Unit.

Compliance risk review

Branch assessments are conducted by the Regional Compliance Officers on a risk based approach and reviews are conducted on selected branches by the Compliance Department. Head office departments and other related units are assessed by the Compliance Department selecting the Departments/Units on a risk based approach. Also subsidiaries which carry out financial transactions are reviewed quarterly through a questionnaire in addition to the annual visits conducted by the compliance department.

RISK MANAGEMENT

Strategic risk

Strategic risk is the potential loss to earnings and viability arising due to adverse business decisions, improper implementation of decisions, challenging business environment and inadequate response to changes in operating environment.

Strategic risks are managed through the Bank's strategic plan approved by the Board and Executive Management. The strategic plan is formulated following extensive stakeholder engagement at multiple levels and discussions with business units. In the event a risk materialises, a series of management actions are developed to prevent or mitigate the impact on Bank's earnings. The business performance is tracked on a weekly basis, by the ALCO and the Board. The actual performance is assessed against the budgeted targets for each business unit. If needed, the strategies are revised to suit any changes in the business environment.

Strategic risk is assessed using a scorecard, by taking into consideration a range of factors including the Bank's size, complexity, sophistication of operations, environmental analysis as well as customer profiling. The scorecard helps to identify areas that need improvements to mitigate strategic risk.

Group risk management

The Bank's main subsidiaries, People's Leasing & Finance Company PLC, People's Merchant Finance PLC and People's Insurance PLC have structured risk management frameworks to identify, assess and monitor their risk exposures. People's Bank provides oversight to the risk management aspects of the Group entities through the following structures and mechanisms:

- The Group's risk appetite and strategy is formulated at Bank level.
- Reporting structures, processes and thresholds are determined by the Bank's Board of Directors.
- Defined key risk indicators, trigger levels and thresholds have been established for each group entity in which the Bank's exposure exceeds LKR 500 Mn.
- People's Bank's Audit Committee and Internal Audit Department ensures the adequacy of the internal control mechanisms of the subsidiaries, through periodic reviews.
- In certain instances, Directors are nominated to the respective Boards of the subsidiaries by People's Bank.
- The risk profiles of the regulated subsidiaries are reviewed by People's Bank's BIRMC, periodically.
- The Bank's Board of Directors have access to the board minutes of Group companies.

The Group's risk ratings for key categories of risk in 2020

	Credit Risk	Market Risk	Operational risk	Compliance risk	Strategic risk	Reputation risk
People's Bank	Low	Low	Low	Low	Low	Low
People's Leasing & Finance	Moderate	Low	Low	Low	Moderate	Low
People's Insurance	Low	Low	Low	Low	Moderate	Low

GOVERNANCE REPORTS

This section provides an insight into our commitment towards corporate governance, our policies and procedures and mechanisms in place for effective oversight and controls.

173 / Corporate Governance

192 / Board Subcommittee Reports

**197 / Directors' Statement on Internal Control
Over Financial Reporting**

199 / Auditor General's Assurance Report on Internal Controls

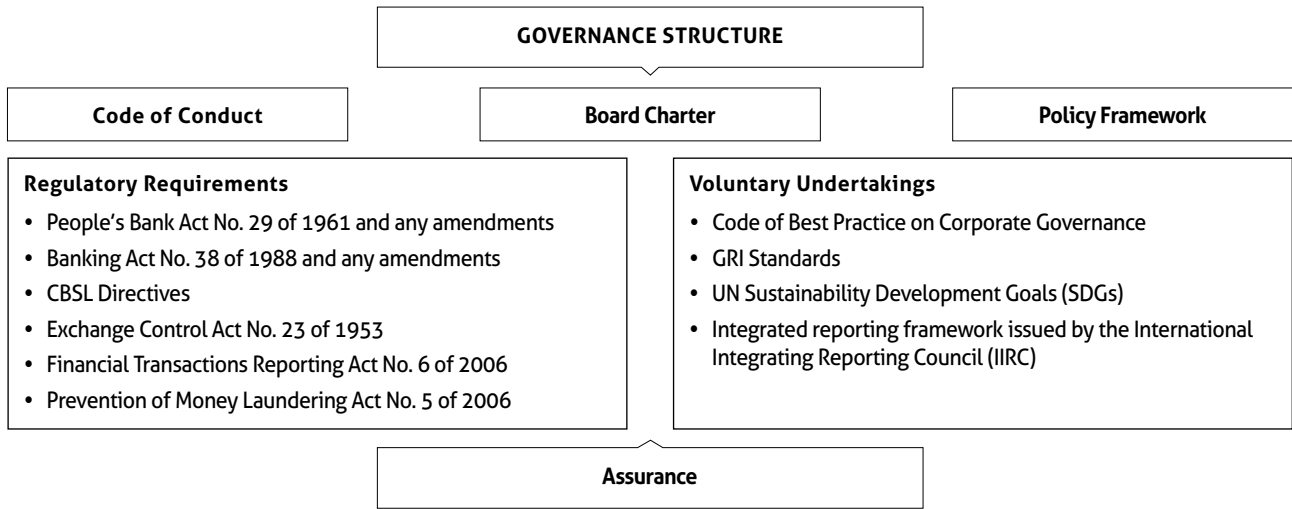


CORPORATE GOVERNANCE

The Bank's Corporate Governance framework defines the structure of roles, practices and processes used to direct and manage the Bank. A strong and effective corporate governance framework has enabled the integrity, high performance and sustainability of the Bank. Identification of power and decision making bodies enable to create more accountability towards the Bank.

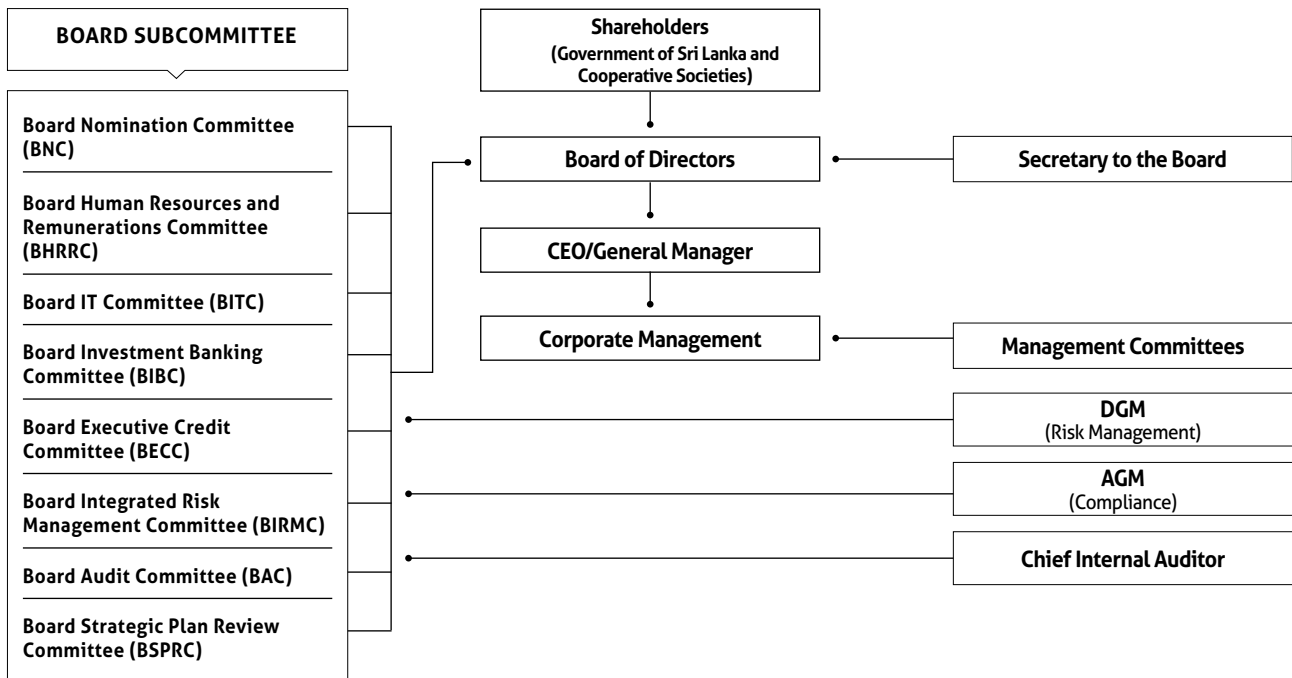
GRI 102-18, 102- 22

People's Bank's Corporate Governance Framework



Governance structure

Bank's corporate governance structure consists of several layers. The Board provides oversight and deliberates with the Executive Management about the Bank's strategic direction, financial goals, resource allocation, and risk appetite. The Management is responsible to execute the policies of the Board to create shared value for all its stakeholders.



CORPORATE GOVERNANCE

Key Focus for 2020:

- The Bank focused on supporting customers who are experiencing financial difficulties because of the COVID-19 pandemic and has offered a range of industry-wide financial assistance measures including, amongst many other, the debt moratorium initiated by the Central Bank of Sri Lanka.
- Our latest strategic plan (2021-2023) is in line with the growth of the Bank and the State, prioritizing our contribution to the overall economic development of Sri Lanka.
- Provide financial and non-financial assistance for COVID-19 related Innovators and Investors at the early stage and develop them into successful entrepreneurs in the future, by partnering with them at the initial stage.
- Maintain high level of Customer Service Quality (CSQ)

Assurance

The Auditor General provides assurance on the Financial Statement of the Bank and on the Directors' Statement on Internal Controls over Financial Reporting which are published on pages 203 to 204 and 199 respectively. He also certifies the level of compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

GRI 102-22, 102-23, 102-24

Compliance with the Code of Best Practice for Corporate Governance

The Board (Principle A.1)

Board of Directors of People's Bank are appointed by the Minister of Finance. The current Board comprises the Chairman, and Non-Executive Directors. All Directors are eminent professionals of

the State and private sector. The Chairman, is a well experienced professional with over 30 years experience especially in the finance field. The diverse range of skills and experience of the Non-Executive Directors enrich the Bank's risk management and control process. Profiles of the Directors are given on pages 28 to 29.

GRI 102-33

Holding of regular Board meetings (Principle A. 1.1)

The Board meets at least once a month and additional meetings are convened based on necessity. The Board met 20 times during the year 2020, and all Board meetings were characterised by high attendance, active participation and constructive and open discussions.

Directors are required to attend all Board meetings and Committee meetings of which they are members. Instances of non-attendance at Board meetings were generally due to prior engagements, personal commitments or illness.

In addition, Non-Board members of the Senior Management and the advisory members may, by invitation, attend meetings to address specific items in the agenda. Members of the Corporate Management and/or external experts are allowed to make presentations to the Board and Subcommittees on a regular basis on matters pertaining to the Bank's strategy.

The attendance of each Director at Board meetings and respective committee meetings in 2020 are detailed below:

Name of Director	Status	Board meeting	BAC	BHRRC	BIRMC	BECC	BNC	BIBC	BITC	BSPRC
Mr Sujeewa Rajapakse	Independent Non-Executive	20/20		4/4			13/13			2/2
Mr Kumar Gunawardana	Independent Non-Executive	20/20				20/20		3/3	2/2	
Mr Sudarshan Ahangama	Independent Non-Executive	19/20	9/9	4/4			13/13			
Mr Isuru Balapatabendi	Independent Non-Executive	19/20			3/4			3/3		2/2
Mr Malindu Ranasinghe	Independent Non-Executive	16/20		4/4			11/13		1/2	
Mr Keerthi Goonatillake	Independent Non-Executive	17/20	7/9			15/20			2/2	1/2
Mr Manjula Wellalage	Independent Non-Executive	18/20		4/4		14/20				
Mr K A Vimalenthirarajah	Non-Independent Non-Executive	15/20	7/9		4/4			2/3		

CORPORATE GOVERNANCE

Role of the Board (Principle A. 1.2)

The Board is responsible to provide leadership, oversight, control, development, and ensure long-term success of the Bank. They also facilitate value creation to shareholders in accordance with applicable laws and regulations. The Board is also responsible for nurturing the right culture, instilling values and promoting ethical behaviour throughout the Bank.

There is a formal schedule of matters reserved for the Board, which are reviewed regularly to ensure it remains current. Matters reserved for the Board include the items summarised in the table below:

Governance	Strategy and directions	Risk management accountability and control
<ul style="list-style-type: none"> Review of governance arrangements Terms of reference for and membership of Board committees 	<ul style="list-style-type: none"> Approval of strategy and annual budgets Authorisation of acquisition and disposal activity Affirmation of risk management strategies and risk appetite 	<ul style="list-style-type: none"> Approval of financial statements, other updates to market and recommendations on dividends Approval of authority levels, financial, and treasury policies Review of internal control and risk management Approval of health and safety policies

The Board has delegated some of its responsibilities to committees of the Board. The scope of work assigned to each committee along with the progress made during the year is given on pages 192 to 196 of this Report.

Monitoring the effectiveness of the Bank's risk management and internal control systems has been delegated to the Board Risk Management Committee and Audit Committee. The Board retains ultimate responsibility for determining the Bank's "risk tolerance". The Risk Management Report is reviewed by the Board, and this includes, monitoring, controlling and reporting of identified risks and uncertainties. In addition, the Board reviews reports referred by the Chairman of the Risk Committee and Audit Committee pertaining to risk management.

Compliance with laws of the country as applicable to the business and procedure to obtain independent professional advice (Principle A. 1.3)

The Board of Directors collectively and severally, are expected to act in accordance with the laws of the country, applicable to the business conducted by the Bank. Therefore, the Board is responsible for ensuring all relevant procedures and controls are in place to maintain compliance with all applicable laws and regulations.

The Board acknowledges the need to obtain independent judgement from time to time, on certain matters. Accordingly, Board members are entitled to seek independent professional advice (including but not limited to legal, accounting, and financial advice) at the Bank's expense on any matter connected with the discharge of his/her duties and responsibilities.

Company Secretary (Principle A. 1.4)

All Directors have access to the Board Secretary. The Board Secretary is responsible to the Board for ensuring all agreed procedures and applicable rules and regulations are observed. In addition, the Board Secretary serves as the Secretary to all committees and maintains the minutes of all Board meetings and committee meetings. Other responsibilities of the Board Secretary include:

- Coordinating matters pertaining to the conduct of Board meetings and subcommittee meetings
- Conducting proceedings in accordance with the People's Bank Act and relevant legislation
- Facilitating adoption of best practice on corporate governance including assisting the Directors with respect to their duties and responsibilities, in compliance with relevant legislation and best practice
- Acting as the communication liaison between Non-Executive Directors and Management
- Ensuring appropriate disclosures on related parties and related party transactions in line with regulatory requirements
- Obtaining legal advice in consultation with the Board on the People's Bank Act and other relevant legislations in ensuring Bank's compliance with all applicable laws and regulations

Independent judgement of Directors (Principle A. 1.5)

Directors are required to bring an independent judgement to bear on decisions of the Bank. As experienced professionals, their duties are performed without any influence from other persons. The Board promotes dynamic, and constructive contribution from Non-Executive Directors.

CORPORATE GOVERNANCE

Dedication of adequate time and effort by the Directors (Principle A. 1.6)

Directors are expected to dedicate sufficient time before a meeting to review Board papers and call for additional information and clarification and to follow-up on issues.

Directors are also expected to ensure sufficient time is dedicated at every meeting to ensure all responsibilities are discharged satisfactorily.

Training for Directors (Principle A. 1.7)

All Directors are entitled to receive relevant training for continuous development. To ensure Directors' contribution to the Board/committees remains relevant, ongoing trainings and updates are provided for Directors to regularly refresh their knowledge, skills and understanding of the business, and markets in which the Bank operates. This includes written reports and presentations by senior executives or consultants, on Bank's operations, corporate governance, legal and regulatory developments.

Chairman and CEO (Principle A. 2)

Whilst the Chairman and Chief Executive Officer (CEO)/General Manager (GM) are collectively responsible for the leadership of People's Bank and for promoting the highest standards of integrity and probity, there is a clear and effective division of accountability and responsibility between the Chairman and the CEO/GM. Each play a distinctive role which complements each other to ensure balance of power and authority and avoid unfettered powers of decision and control for one individual.

The Chairman is responsible for leading, directing and managing the Board to ensure effective operations and fully discharging its legal and regulatory responsibilities. The primary role of CEO/GM is to manage the day-to-day operations of the Bank.

A decision to combine the posts of Chairman and Chief Executive Officer in one person should be justified and highlighted (Principle A. 2.1)

The position of the Chairman and the CEO/GM are clearly separated, preventing unfettered powers for decision-making by one person.

The Chairman and the CEO/GM have been identified on pages 28 and 32 of the Annual Report.

GRI 102-23

Chairman's role (Principle A. 3)

The Chairman is responsible for ensuring the CEO/GM and the Management effectively implement the strategies and policies agreed by the Board. The Chairman also provides stewardship for the adoption good governance practices and provides oversight to ensure effective communication with shareholders and other stakeholders.

Conducting Board proceedings in a proper manner (Principle A. 3.1)

The Chairman is responsible not only for providing leadership but also for overseeing the functioning of the Board to safeguard the best interest of the Bank and its shareholders. Accordingly, the Chairman is responsible for:

- Ensuring Board meetings are planned and conducted effectively
- Setting the agenda for each Board meeting, taking cognisance of the matters proposed by other Directors, members of various subcommittees or the Board Secretary
- Ensuring the Board members receive accurate, timely, and clear information
- Ensuring minutes of Board meetings are accurately recorded and circulated among the Directors
- Providing leadership and governance to the Board to create a conducive environment for the Board and individual Director's to discuss issues in a timely manner
- Promoting a culture of transparency and encouraging Non-Executive Directors to engage in constructive and healthy exchange of views pertaining to matters of the Board and thereby facilitating contribution to the effective functioning of the Board
- Ensuring the Board plays a full and constructive role in developing and assessing Group's strategies and policies, and ensuring Board decisions are taken in the best interest of the Bank and fairly reflect Board's consensus
- Proving leadership for self-assessment to generate meaningful feedback to further improve the effectiveness of the Board

Financial acumen (Principle A. 4)

The People's Bank Board comprises members with sufficient financial acumen and knowledge. In addition to the Senior Chartered Accountants and Chartered Management Accountants who provide guidance on the financial matters, the rest of the Directors have sufficient financial acumen acquired through their extensive professional experience.

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Board balance (Principle A. 5)

The People's Bank Board is well balanced with eight Non-Executive Directors, of whom seven function in an independent capacity. This is above the minimum stipulated by Code of Best Practice for Corporate Governance issued jointly by the Securities Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka.

All Independent Non-Executive Directors are independent of management and free from any business or other affiliations that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

Every Non-Executive Director submits a signed declaration of independence/non-independence against the specified criteria and they are evaluated to ensure compliance with the criteria for determining independence.

In the year under review, there were no circumstances that warranted the appointment of Alternate Directors. The need to appoint a Senior Independent Director did not arise either due to the segregation of positions of the Chairman and the CEO/GM.

Supply of information (Principle A. 6)

Board meetings are scheduled well in advance, giving adequate notice to Directors. Prior to every Board or committee meeting, the Bank Secretary ensures all relevant papers including the agenda, content and a summary of management presentations are made available to all the Directors seven working days prior to the meeting. The Directors who are unable to attend the meetings are updated through the documented minutes, which are tabled at the next meeting with the matters to be followed-up from the minutes.

Monthly accounts for a given month are prepared and circulated among Directors in the following month along with key financial performance indicators of each division/subsidiary. If the Board feels the information provided is insufficient or not clear, they are entitled to request for further clarification or additional information. The respective management personnel can be called for the meetings when deemed necessary to provide further details.

GRI 102-24

Appointments to the Board (Principle A. 7 and A. 8)

In accordance with the People's Bank Act, a maximum of 10 Directors are appointed by the Minister in charge of the portfolio of which two Directors are nominees of the respective Minister handling the subject of cooperatives. Appointments are made for a period of three years

subject to a maximum term of nine years and an age limit of up to 70 years, whichever comes first in line with the provisions of the Banking Act Direction No. 11 of 2007.

All appointments for directorships are submitted to the Central Bank of Sri Lanka for assessment under the Fit and Proper Criteria for Directors.

Appraisal of Board performance (Principle A. 9)

Every member of the Board conducts a self-assessment of his/her own effectiveness as well as the Board as a team annually, incorporating all criteria specified in the Board performance evaluation checklist of the Code. The responses are collated by the Board Secretary and submitted to the Board as a summary report.

Disclosure of information in respect of Directors (Principle A. 10)

Information specified in the Code in relation to Directors is disclosed in this Annual Report as follows:

- Name, qualifications, brief profile and the nature of expertise on pages 28 and 29.
- Number of Board and Committee meetings held in year 2020 and attendance on page 174.
- Names of committees in which the Director serves as the Chairman or a member on page 173.
- Related party transactions on pages 294 to 299.

Appraisal of the CEO (Principle A. 11)

The evaluation of the CEO/GM is one of the most important responsibilities of the Board. The evaluation process provides a formal opportunity for the Board and CEO/GM to have a constructive discussion regarding the performance and the leadership of the CEO/GM. The set of KPIs for the CEO/GM formulated under Strategic Planning and Performance Management is reviewed monthly by the panel who submits the review to the Board monthly for their review. These goals are confirmed by the Board and are used as the basis for the annual CEO/GM's appraisal process.

The CEO/GM is responsible to provide the Board with explanations for any adverse variances along with corrective action to be taken.

Director's and executive remuneration procedure (Principle B. 1. B.1.1, B. 1.2, B. 1.3)

Board remuneration is decided according to guidelines set by the Ministry of Finance. No Director is involved in determining his/her own remuneration. The BHRRC makes recommendations to the Board pertaining to the remuneration and benefits of the CEO/GM and

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Key Management Personnel within agreed terms of reference and in accordance with the remuneration policies of the Bank, and the Collective Agreement. Remuneration is designed to attract, retain and motivate high performing, qualified and experienced employees of the Bank. The Board in turn makes recommendations to the Minister of Finance who is the final authority for approval of their remuneration under the collective agreement.

The BHRRC seeks professional advice externally, when deemed necessary, in discharging their responsibilities. The report of the BHRRC, disclosing the Statement of Remuneration Policy and the names of the Chairman and members of the BHRRC is given on page 193. The aggregate remuneration paid to the Directors is given on page 236.

Relations with shareholders (Principle C. 1, C. 2)

As a State Bank, with the Government of Sri Lanka being the main shareholder, People's Bank comes directly under the purview of the Ministry of Finance. The Board liaises with the Ministry to ensure alignment with the socio-economic development goals of the country.

The Annual Report is printed in English, Sinhala, and Tamil and is circulated through the Ministry of Finance to the Parliament. The Bank liaises with the Ministry of Finance for matters concerning the Ministry.

Major and material transactions (Principle C. 3)

There were no transactions which would materially alter the Bank's or Group's net asset base, other than those disclosed in the Note 45 to the Financial Statements, Related Party Disclosures on pages 294 to 299.

Financial reporting (Principle D. 1)

The Annual Report presents a balanced review of the Bank's financial position, performance, and prospects. Both narrative and visual elements have been used in presenting the information, to increase comprehension and clarity. We have provided a balanced view on our performance in this report and other communications presented to relevant authorities including the Ministry of Finance and regulators. The Bank takes every effort to ensure compliance with statutory requirement in the Annual Report and in the issue of interim communications on financial performance.

The following disclosures as required by the Code are included in this Report:

- Statement of Directors' Responsibility on page 202 includes a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements
- Independent Auditors Report on pages 203 to 204 includes a statement of their responsibilities

- Directors' Statement on Internal Control over Financial Reporting on pages 197 to 198.
- Management Commentary on pages 192 to 196.
- Statement of going concern of the Company is set out in the Statement of Directors' Responsibility on page 202.
- Related Party Transactions are disclosed on pages 294 to 299 of the Directors' Report and in Note 45 in the Financial Statements

Internal control and Audit Committee (Principle D. 2 and D. 3)

The Board is cognisant of its responsibility for formulating and implementing appropriate and adequate processes for risk management and sound internal control systems to safeguard shareholder interests and assets of the Bank. BAC assists the Board in relation to risk managements while BIRMC assists the Board in discharge of its duties with regard to risk management. Their roles and responsibilities are provided in the Committee Reports given on pages 192 and 196, respectively.

BIRMC is supported by the Risk Management Department of the Bank. A comprehensive report on Bank's risk management process is included on pages 110 to 138. BAC is supported by the internal audit function of the Bank. The Internal Audit Department reviews the adequacy and effectiveness of the internal control systems and reports to the BAC on a regular basis. Duties of the BAC include keeping under review the scope and results of such audits and its effectiveness. BAC also plays a primary role in liaising with the Auditor General, who conducts the external audit of the Bank.

Code of Business Conduct and Ethics and Corporate Governance Report (Principle D. 4 and D. 5)

The Bank has two Codes of Business Conduct and Ethics, one applicable to the Directors and the other to the employees. BHRRC is responsible to regularly review the respective codes to ensure they remain relevant and adequate considering the evolving business operations of the Bank. The Codes of Business Conduct and Ethics are in compliance with the requirements of the Schedule I of the Code of Best Practice on Corporate Governance.

This Corporate Governance Report from pages 179 to 191 complies with the requirement to disclose the extent of compliance with the Code of Best Practice on Corporate Governance as specified in Principle D 5.

Shareholder relations (Principle E and F)

The relevant provisions of the Code are not applicable, because the main shareholder of People's Bank is the Government of Sri Lanka.

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GRI 102-18, 102-19, 102-32

Sustainability report (Principle G)

The Board approved a Sustainability Policy for the Bank and has set in place a governance structure to ensure its philosophy, objectives, and strategic goals for social and environmental development are implemented. Accordingly, triple bottom line values have been embedded throughout the Bank's operations in all geographic areas. The sustainable business initiatives of the Bank are described in line with the Principles of the Code, as follows:

- Principle 1** - Economic Sustainability – Financial Capital on pages 65 to 69.
- Principle 2 - Environment – Natural Capital on pages 121 to 125.
- Principle 3 - Labour Practices – Human Capital on pages 83 to 96.
- Principle 4 - Society – Social and Relationship Capital on pages 98 to 120.
- Principle 5 - Product Responsibility – Social and Relationship Capital: Customer on. Pages 98 to 120.
- Principle 6 - Stakeholder identification, engagement and effective communication, Stakeholder Engagement on pages 49 to 51.
- Principle 7 - Sustainable reporting to be formalised as part of the reporting process and to take place regularly - About this Report on pages 01 to 03.

The Banking Act Direction No. 11 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank

Section	Principle	Compliance and implementation	Complied
3.(1)	Responsibilities of the Board		
		The Board has strengthened the safety and the soundness of the Bank in the following manner:	
a.	Setting strategic objectives and corporate values	<p>Board approved Strategic Plan 2016-2020 is in place. Which has been approved in 2015 and subsequently ratified in 2016.</p> <p>Bank's strategic objectives have been communicated to the Business Unit Heads and to the Operational level staff at an offsite location.</p> <p>Monthly progress of Strategic Plan 2016 to 2020 has been reviewed by the Board.</p> <p>Further, the BSPRC has reviewed tactical plan.</p> <p>Budget 2020 has been presented by the Head of Finance (HOF). HOF has explained the Bank's 2020 Budget together with three scenarios.</p>	Complied with
b.	Approval of overall Business Strategy including Risk Policy and Management	<p>Strategic Plan includes strategic objectives and overall business strategy of the Bank.</p> <p>Risk management procedures and mechanisms are in place. Board has reviewed the Risk Management Policy of the Bank.</p> <p>The Bank is in the process of developing strategic plan 2021-2023 through an external consultant.</p>	Complied with
c.	Risk management	<p>Board Integrated Risk Management Committee (BIRMC) takes the initiative in the assessing of all risks of the bank with the assistance of the Credit Risk Officers (CROs) and the relevant KMPs.</p> <p>Bank will have to initiate a process where the Board members discuss new strategies of the Bank, the risks arising out of new strategies and further the ways and means to mitigate such risks.</p>	Complied with
d.	Communication with all stakeholders	<p>The Board has approved and implemented an effective cooperate communication policy with all stakeholders. It was initially approved by the Board in 2012.</p> <p>The Board has reviewed communication policy at their meeting</p>	Complied with

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Section	Principle	Compliance and implementation	Complied
e.	Internal Control System and Management Information Systems	<p>Internal control systems</p> <p>There is an annual Board mechanism at the Bank to identify the accuracy of the financial information and the Bank's internal control systems by the Board of Directors through the process over design and effectiveness of internal control over financial reporting. Further Internal Audit Division of the Bank adds value to the process verifying the effectiveness of the above process.</p> <p>As per the Head of Internal Audit, IAD is in the process of reviewing the internal control systems with the collaboration of respective Heads of Depts.</p> <p>Management information systems</p> <p>Board has to review the adequacy and the integrity of the Bank's management information systems periodically.</p>	Complied with
f.	Key Management Personnel (KMPs)	Board has defined and designated the following categories as KMPs CEO, SDGMs, DGMs, AGMs, CRO/DGM (RM), HOF, CIA, Compliance Officer, Head of Treasury, Head of Legal, Head of IT and Board Secretary as defined in Banking Act Determination No. 1 of 2019 and any other officer falling under the definition of section 3(1) (i) (f) of the banking act direction No. 11 Of 2007.	Complied with
g.	Define areas of authority and key responsibilities for Directors and KMP	<p>There is clear segregation of authority and responsibilities between the Directors and the KMPs. Board members are responsible for taking strategic decisions of the Bank. KMPs are responsible for carrying out the decisions made by the Board and for operations.</p> <p>Further, People's Bank Act defines the areas of authority and Key responsibilities for the Board of Directors including the CEO.</p> <p>Key responsibilities of the KMPs are entirely operational based and are specified in their respective job descriptions.</p> <p>Authority of key management personnel are defined under delegation authority limits.</p>	Complied with
h.	Oversight of affairs of the Bank by KMP	Board has exercised appropriate oversight of the affairs of the Bank by key management personnel.	Complied with
i.	Assess effectiveness of own governance practices		
	(i) The selection, nomination, and election of Directors and Key Management Personnel;	People's Bank Act No. 29 of 1961, Section 8 defines the selection and appointment of Directors by the Minister and two of them shall be nominated by the Minister in charge of the subject of Corporative.	Complied with
	(ii) The management of conflicts of interests; and	People's Bank Act No. 29 of 1961, Section 11 speaks on the conflicts of interest of the Board of Directors. Further, the Code of Best Practice, Section 2.13.G approved by the Board in September 2011 speaks on conflicts of interests of the Board members.	Complied with
	(iii) The determination of weaknesses and implementation of changes where necessary.	<p>Bank has a Self-Evaluation process in place for the Board of Directors which include the evaluation of Board Directors' own governance practices. Further, the Code of Best Practice, Section 2.21 approved by the Board in 30 September 2011 speaks on Self- Evaluation process.</p> <p>Self-evaluations of board members for the year 2020 collected by the Board Secretary.</p> <p>Self-evaluation of CEO and KMPs has to be submitted to the board as per the Section 2.21 of code of best practice and a summary has to be submitted to the Board for their review and to discuss areas of weaknesses and recommend changes where necessary.</p>	Complied with
j.	Succession plan for KMP	Board approved Succession Plan for CEO and KMPs are in place.	Complied with
k.	Regular meetings with KMP	Key Management Personnel are called regularly when the need arises by the Board to explain matters relating to their area of functions.	Complied with

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Section	Principle	Compliance and implementation	Complied
L	Regulatory environment and maintaining an effective relationship with regulator	<p>Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.</p> <p>On appointment as Directors, the Board secretary furnishes them with Code of Best Practice on Corporate Governance, details of existing directors etc.</p> <p>CBSL Statutory Examination Report as at 30 September 2019 has been discussed in Board Audit Committee by BAC and need to available for review of the Board to take note over the supervisory concerns.</p> <p>Attendance of the CEO at CBSL meetings further evidence the relationship maintained with the regulator.</p>	Complied with
m	Hiring External Auditors	By People's Bank Act Section 34, the Auditor General is the auditor of the bank.	Complied with
3.1 (ii)	Appointment of Chairman and CEO and defining and approving their functions and responsibilities	<p>As per the People's Bank Act, Section 10, Minister shall appoint the Chairman of the Board from among the Members of the Board.</p> <p>During the financial year the Chairman and all CEO/GMs were duly appointed.</p> <p>Section 2.22 and 2.23 of Code of Best Practice in Corporate Governance of the Bank defines the Powers and Roles of the Chairman.</p> <p>Code of Best Practice in Corporate Governance (CBPCG) Section 3.9 Annex III of the Bank defines the Roles, Duties and Responsibilities of the CEO/GM.</p>	Complied with
3.1 (iii)	Regular Board meetings	<p>Bank has held 20 meetings during the year 2020. There was no Board meeting held during the month of September.</p> <p>There were 31 circular resolutions passed during the year 2020.</p>	Complied with
3.1 (iv)	Arrangements for Directors to include proposals in the agenda	<p>As a practice, Directors include matters and proposals in the agenda for regular meetings.</p> <p>Board approved procedure is in place to enable all Directors to include matters and proposals in the agenda for regular board meetings.</p>	Complied with
3.1 (v)	Notice of meetings	<p>Duties of the Secretary to the Board (Annex iv) given in the Code of Best Practice in Corporate Governance includes a provision that the preparing the calendar of regular Board meetings for each year is the duty of the Board Secretary with the approval from the Board. Board meeting Calendar for, 2021 has approved in board meeting held on 29 January 2021.</p> <p>Further as a practice, notice of at least 7 days is given for the Board to provide all Directors an opportunity to attend regular meetings.</p>	Complied with
3.1 (vi)	Directors attendance	As per the Board Attendance schedule, All the Directors have attended two-thirds of the meetings held during the year 2020.	Complied with
3.1 (vii)	Appointment and setting responsibilities of the Board Secretary	<p>Board Secretary is an Attorney at Law who satisfies the board approved SOR section 2.5.i</p> <p>The Board has appointed Ms Shyama Wijekoon, Assistant Board Secretary as an Acting Secretary to the Board of Directors w.e.f 1 April 2019.</p>	Complied with
3.1 (viii)	Directors access to advice and services of Board Secretary	Section 2.25 of the Code of Best Practice in Corporate Governance has a provision in this regard.	Complied with
3.1 (ix)	Maintenance of Board minutes	Duties of the Secretary to the Board (Annex iv) given in the Code of Best Practice in Corporate Governance (version 1.2) approved by the Board includes a provision in this regard.	Complied with
3.1 (x)	Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities	Detailed minutes are kept covering the given criteria and the Board minutes evidence that they contain the required details such as individual views of the members, ultimate decision of the Board, whether complies with strategies and policies of the Bank and further they speak on data, reports and information used by the Board members in arriving at the decisions.	Complied with

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Section	Principle	Compliance and implementation	Complied
3.1 (xi)	Directors ability to seek independent professional advice	Board approved policy is in place to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Complied with
3.1 (xii)	Dealing with conflicts of interest GRI 102-25	<p>People's Bank Act No. 29 of 1961 Section 11 speaks on the conflicts of interest of the Board of Directors. This procedure further evidence that the director is to abstain from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest and he/she not been counted in the quorum.</p> <p>Section 2.13 of Code of Best Practice of the Bank approved by the Board also has a provision with regard to this.</p> <p>The Board has discussed about the Related party Transaction Policy in their meeting held on 19 March 2018.</p>	Complied with
3.1 (xiii)	Formal schedule of matters reserved for Board decision	Board Charter of Code of Best Practice of the Bank approved by the Board, Section 2.28 defines the Powers Reserved for the Board.	Complied with
3.1 (xiv)	Inform Central Bank if there are solvency issues	<p>There is a procedure in place at the Bank for informing the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations.</p> <p>As per the Board minutes such an instance has not arisen during the year 2020.</p>	Complied with
3.1 (xv)	Capital adequacy	Board has capitalised the Bank at levels required by the Monetary Board. This has been addressed through the Monthly Compliance Certificate submitted by the Compliance Officer.	Complied with
3.1 (xvi)	Publish Corporate Governance Report in Annual Report	Board has published its Corporate Governance report on compliance with Section 3 of this Direction on page 179 to 191 of the Annual Report 2020.	Complied with
3.1 (xvii)	Self-assessment of Directors	The Bank has a scheme of self-evaluation of directors in place and the Board Secretary annually obtains the evaluation forms from all the Directors.	Complied with
3.(2)	The Boards composition		
3.(2) (i)	Number of Directors	<p>The Board has comprised of not less than seven (7) directors during the year 2020.</p> <p>The name of the Directors: Mr Sujeewa Rajapakse Mr Kumar Gunawardana Mr Sudarshan Ahangama Mr Isuru Balapatabendi Mr Malindu Ranasinghe Mr Keerthi Goonatillake Mr Manjula Wellalage Mr K A Vimalenthirarajah Mrs Bhadranie Jayawardhana</p>	Complied with
3.(2) (ii) (a) and (b)	Period of service of a Director	<p>None of the Directors appointed on 26 December 2019 has exceeded the service of nine years during the year 2020.</p> <p>All the Directors have been appointed during the period 2019 by the Minister in charge of the subject.</p>	Complied with
3.(2) (iii)	Board balance	There are no Executive Directors on the People's Bank Board.	Complied with
3.(2) (iv)	Independent Non-Executive Directors	The Board comprised of adequate number of independent Non-Executive Directors on the Board to comply with the direction during the current year.	Complied with
3.(2) (v)	Alternate Independent Directors	There is no provision in the People's Bank Act to appoint alternate directors and such a situation does not arise.	Complied with

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Section	Principle	Compliance and implementation	Complied
3.(2) (vi)	Criteria for Non-Executive Directors	The appointments to the Board are made by the Minister in Charge of the Finance, under Section 8 of the People's Bank Act No. 29 of 1961.	Complied with
3.(2) (vii)	More than half the quorum to comprise Non-Executive Directors	All the Directors of the Bank are non- executive and as per the section 2.3 of Code of Best Practice of the Bank the stipulated quorum of the Board is five. As per the Attendance submitted by the Board Secretary for the financial year 2020 evidence that the required quorum has been complied with at all Board meetings.	Complied with
3.(2) (viii)	Identify Independent Non-Executive Directors in communications and disclose categories of Directors in Annual Report	Composition of the Board, including the names of the Chairman, Non-Executive Directors and Independent Directors have been disclosed in the Annual Report 2020 on page 174.	Complied with
3.(2) (ix)	Formal and transparent procedure for appointments to the Board	The appointments to the Board are made by the Minister of Finance, economy and policy development, under Section 8 of the People's Bank Act No. 29 of 1961.	Complied with
3.(2) (x)	Re-election of Directors filling casual vacancies	Such a situation does not arise since the Minister in Charge of the subject appoints them.	Complied with
3.(2) (xi)	Communication of reasons for removal or resignation of Director	People's Bank Act, Section 8 (4), provides a director to resign by writing a letter to the Minister of the subject. Further the minister can also remove a director by publishing a Gazette notification. There were no such occurrences during 2020.	Complied with
3.(2) (xii)	Prohibition of Directors or employees of a Bank becoming a Director at another bank	Code of Best Practice, Section 2.1 of People's Bank has a provision with regard to this.	Complied with
3.(3)	Criteria to assess fitness and propriety of Directors		
3.(3) (i)	Age of Director should not exceed 70 years	As per the Section 2.1 of code of best practices, none of the person who serves as Director does not exceed 70 years during the year 2020.	Complied with
3.(3) (ii)	Directors should not be Directors of more than 20 companies and not more than 10 companies classified as specified business entities	None of the Directors holds directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank during the year.	Complied with
3.(3) (iii)	Director or CEO shall not be appointed as a Director or a CEO of another Licensed Bank operating in Sri Lanka prior to expiry of 6 months cooling-off period from the date of cessation of his/her office at a Licensed Bank	There were no Director or CEO appointed from another bank during the year 2020.	Complied with
3.(4)	Management functions delegated by the Board		
3.(4) (i)	Understand and study delegation arrangements		Complied with
3.(4) (ii)	Extent of delegation should not hinder Board ability to discharge its functions	The Board is empowered by the Section 32 of the People's Bank Act to delegate its powers to any officer of the Bank and may revoke either wholly or in part as the case may be.	Complied with

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Section	Principle	Compliance and implementation	Complied
3.(4) (iii)	Review delegation arrangements periodically to ensure relevance to operations of the Bank	The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank.	Complied with
3.(5)	The Chairman and Chief Executive Officer		
3.(5) (i)	Separation of roles	Roles of Chairman and CEO are held by two individuals appointed by the Board.	Complied with
3.(5) (ii)	Non-Executive Chairman and appointment of a Senior Independent Directors	Appointed Mr Sujeewa Rajapakse, as the Chairman of the Bank who is an Independent, Non- Executive Director with effect from 26 December 2019. Therefore, no such requirement has arisen to appoint a Senior Independent Director.	Complied with
3.(5) (iii)	Disclosure of identity of Chairman and CEO and any relationships with the Board members	Bank has a process in this regard. For the year 2020 there are no financial, business, family or other material/relevant relationships between, Chairman, CEO and among Directors.	Complied with
3.(5) (iv)	Self Evaluation Process of the Board	Board has a scheme of self-performance evaluation for the Board of Directors which complies with the requirement.	Complied with
3.(5) (v)	Responsibility for agenda lies with Chairman but may be delegated to Board Secretary	Agenda for Board meetings is drawn up by the Board Secretary in consultation with the Chairman.	Complied with
3.(5) (vi)	Ensure that Directors are properly briefed and provided adequate information	The Chairman ensures, that all Directors are properly briefed on issues arising at Board Meetings. Agenda and board papers are circulated to the directors giving adequate time for them to go through the papers. Minutes of previous month's board meeting are distributed to the Board members and tabled at the subsequent board meeting for ratification/approval.	Complied with
3.(5) (vii)	Encourage active participation by all Directors and lead in acting in the interests of the Bank	Board has a scheme of self-evaluation for the Board of Directors which complies with the said requirement.	Complied with
3.(5) (viii)	Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors	Self-evaluation process covers the contribution of Non-Executive Directors.	Complied with
3.(5) (ix)	Refrain from direct supervision of KMP and executive duties	Chairman does not directly get involved in the supervision of Key Management Personnel or any other executive duties.	Complied with
3.(5) (x)	Ensure effective communication with shareholders	Board maintains effective communication with the Government of Sri Lanka who is the main shareholder of the Bank.	Complied with
3.(5) (xi)	CEO functions as the apex executive in charge of the day-to-day operations	As per the Section 2.22, Annex III of code of best practices, functions and responsibilities of the CEO, he is the apex executive-in charge of the day-to-day management of the Bank's operations and business.	Complied with

CORPORATE GOVERNANCE

Section	Principle	Compliance and implementation	Complied
Board Appointed Committees			
3.(6) (i)	Establishing Board Committees, their functions, and reporting	<p>The Bank has established four Board Committees namely, Audit Committee, Human Resources and Remuneration Committee, Nomination Committee and Integrated Risk Management Committee. Other than the above minimum requirement as per the CBSL direction the Bank has established four additional Board sub committees.</p> <p>Reports/minutes of such committees are submitted and tabled at the main board for the information and review by the Board.</p> <p>Annual Report 2020 includes individual reports of each Board subcommittee on page 192 to 196 and such report includes a summary of its duties, roles and performance of each committee.</p>	Complied with
3.(6) (ii) Audit Committee			
a.	Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit	<p>Board has appointed Mr S Ahangama an independent, Non-Executive Director as the Chairman of the BAC with effect from 24 January 2020 with the resignation of Mr A M P M B Atapattu.</p> <p>He is a fellow member of The Institute of Chartered Accountants of Sri Lanka and serves on the Board of MAS Holdings as its Group Finance Director for the past 15 years. He had responsibilities for the finance function in 17 countries across multiple regions. He has experience in mergers and acquisitions cross border transactions, venture capital investments and organisational restructuring work which he handled in addition to his core role in finance. Prior to that he was a Managing Director of John Keells Stock Brokers and was involved in several of the financial services, boards of the company. He was also responsible for setting up software out-sourcing activities at John Keells.</p>	Complied with
b.	Committee to comprise solely of Non-Executive Directors	All members of the Committee are Non-Executive Directors.	Complied with
c.	Audit Committee functions		
	(i) The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;	The Auditor General is the External Auditor of the Bank as provided in the Constitution of the country. Therefore, the Committee has no role to play in the engagement of the External Auditor.	Complied with
	(ii) The implementation of the CBSL guidelines issued to Auditors from time to time;	Committee has made recommendations on matters in connection with the implementation of the Central Bank guidelines issued to auditors from time to time.	Complied with
	(iii) The application of the relevant accounting standards; and	Committee has reviewed and discussed the relevant accounting standards as and when required.	Complied with
	(iv) The service period, audit fee and any resignation or dismissal of the Auditor	The Auditor General, is the External Auditor of the Bank as provided in the Constitution of the country.	Complied with
d.	Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes	This is not relevant since the Bank's auditor is the Auditor General.	Complied with

CORPORATE GOVERNANCE

Section	Principle	Compliance and implementation	Complied
e.	Provision of non-audit services by an External Auditor	This is not relevant since the Bank's auditor is the Auditor General.	Complied with
f.	Determines scope of audit	Committee has discussed and finalised the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	Complied with
g.	Review financial information of the Bank	Committee has a process to review financial information of the Bank when the quarterly and annual audited financial statements and the reports prepared for disclosure are presented to the Committee by the Head of Finance.	Complied with
h.	Discussions with External Auditor on interim and final audits	Committee has held a confidential discussion with the representative of Auditor General.	Complied with
i.	Review of Management Letter and Bank's response	Management Letter for 2019 was submitted to the Board Audit Committee on 16 February 2021. This is to be taken for deliberation at the upcoming meeting.	Non-complied at 6 April 2021 However, to be complied on or before 30 April 2021
j.	Review of internal audit function		
	(i) The adequacy of the scope, functions and resources of the IAD and satisfy itself on necessary authority to carry out its work;	Committee has discussed the Scope and functions of the internal audit department along with the audit plan.	Complied with
	(ii) Internal audit programme and results of the internal audit process	CIA has presented the Audit Plan 2020 to the Board Audit committee on 18 June 2020 and BAC has discussed the scope of the Internal Audit and observed main recommendations to priorities the branches which has issues highlighted by the management letter, CBSL statutory examination etc., to route cause analysis submit together with the remedial actions. Committee has reviewed the results of internal audit reports submitted with regard to the Bank's departments. Committee has reviewed progress of the Internal Audit Plan from time to time.	Complied with
	(iii) Any appraisal or assessment of the performance of the head and senior staff members of IAD	BAC satisfied with the performance of the former CIA for the period 18 January 2019 to 18 January 2020 and the committee has approved increment of the former CIA. Performance appraisal of the senior staff members has to be consider by the Committee.	Complied with
	(iv) Recommend any appointment or termination of the head, senior staff members, and outsourced service providers	Former CIA (Mr E A D J Priyashantha) was retired on 26 May 2020 and overlooking the duties thereon by AGM (Audit) – Mr E A N Dissanayake. AGM (Audit) – Ms G S Gallapathi appointed on 3 February 2020 and AGM (Audit) – Ms M S L Perera retired on 06 March 2020. Further confirmed no services were outsourced for year 2020.	Complied with
	(v) The Committee is appraised of resignations of senior staff members of IAD including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	No resignations of Senior staff of IAD taken place during the year 2020.	Complied with

CORPORATE GOVERNANCE

Section	Principle	Compliance and implementation	Complied
	(vi) The internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency, and due professional care.	Internal Audit Department lastly submitted confirmation on independence of the internal Audit activity and performs with impartiality, proficiency and due professional care to the Board Audit Committee.	Complied with
k.	Internal investigations	As per HIA, major findings of internal investigations have taken place during the year 2020.	Complied with
l.	Attendees at Audit Committee meetings	This is not relevant since there are no Executive Directors in the Board of People's Bank.	Complied with
m.	Explicit authority, resources, and access to information	Board approved Code of Best Practice in Corporate Governance Section 6.1 (d) speaks of the rights of the Board Audit Committee and ensures that the Committee has such authority. TOR of the BAC has been further reviewed by the Committee at their meetings held on 25 October 2019 and recommended the same for the approval of the Board. TOR of BAC has not reviewed on the year 2020.	Complied with
n.	Regular meetings	BAC has held nine (09) meetings during the year 2020 and minutes of such meetings are maintained by the Board Secretary.	Complied with
o.	Disclosure in Annual Report	Details of the activities of the Audit Committee has disclosed in their Annual Report 2020 on page 192. The number of meetings and the details of attendance of each individual director at such meetings disclosed on page 174.	Complied with
p.	Maintain minutes of meetings	The Board Secretary has been appointed as the Secretary of Board Audit Committee and keeps detailed minutes of the meetings.	Complied with
q.	Whistle-blowing policy and relationship with External Auditor	Board approved Whistle Blowing Policy established in the year 2013 has been reviewed again on 3 July 2017 at the BAC. As per the provisions of the prevailing policy, this policy should be reviewed in every two years. It has reviewed by Internal Audit Department on 15 December 2020 as per the evidence of BAC No. 09/2021. Board approval is in pending.	Complied with
Human Resources and Remuneration Committee			
3.(6) (iii) (a)	Remuneration policy relating to Directors, CEO/GM and Key Management Personnel of the Bank. GRI 102-35, 102-36	Remuneration of the Directors is decided by the guidelines set up by the Ministry of Finance. BHRRC has reviewed the Terms of reference of board subcommittee and implemented a Compensation/Remuneration Policy to determine the remuneration (salaries, allowances and other financial payments) relating to CEO and KMPs.	Complied with
(b)	Set goals and targets for the Directors, CEO/GM, and the Key Management Personnel	Goals and targets of CEO and KMPs have to be considered by the Committee for better governance.	Complied with
(c)	Evaluating the performance of the CEO and Key Management Personnel	A new performance evaluation template for the corporate and executive management of the Bank has been developed. Board Integrated Risk Management Committee (BIRMC) reviewed the performance appraisal of AGM Compliance and reviewed the performance appraisal of DGM Risk Management in order to annual salary increment. Board Strategic Plan Review Committee (BSPRC) reviewed the monthly KPI achievements of project champions. However, committee has to initiate actions to consider performance evaluations of CEO and Key Management Personnel against the set goals and targets going forward for better governance.	Complied with

CORPORATE GOVERNANCE

Section	Principle	Compliance and implementation	Complied
(d)	The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Reviewed Terms of Reference of Board Sub Committees' Board Paper No. 754/2019 and meeting held on 30 September 2019 evidence that the CEO/GM should be present at all meetings of the Committee, except when matters relating to the CEO/GM are being discussed. Since the Committee has not considered performance evaluations of CEO/GM, no evidence found in the BHRRC minutes during the year 2020.	Complied with
Nominations Committee			
3.(6) (iv) a.	Appointment of Directors, CEO and KMP	Directors are appointed by the Minister in charge of the subject as per the provision of the People's Bank Act. Procedure to select/appoint a new CEO is in place in the Succession Plan document approved by the BHRRC and Board. Further, the Nomination Committee should implement a procedure to select/appoint senior management personnel as per the TOR of BNC.	Complied with
b.	Re-election of Directors	This requirement does not arise since Directors are appointed by the Minister in charge of the subject as per the provision of the People's Bank Act.	Complied with
c.	Eligibility criteria for appointments to key managerial positions including CEO	Board has approved the selection criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, DGMs and AGMs (who are the Key Management Personnel) included in their job descriptions. Further, Committee has granted approval for the evaluation criteria for the selection and appointment of KMPs in the Bank.	Complied with
d.	Fit and proper persons	Declarations of Directors and CEO have been submitted to the CBSL through the Board. However, committee has to initiate actions to submit declarations of Directors through the Committee going forward.	Complied with
e.	Succession Plan and new expertise	Boards of Directors are appointed by the Ministry of Finance. Board approved Succession Plan for CEO and Key Management Personnel is in place. However, Succession Plan for KMPs has to submit through the committee going forward.	Complied with
f.	Committee Chairman and preferably majority of Directors be Independent. The CEO may be present at meetings by invitation.	Committee is Chaired by Mr Sujeewa Rajapakse who is an Independent Director appointed on 24 January 2020. Other members are Mr Sudarshan Ahangama, (Independent – appointed on 24 January 2020) and Mr Malindu Ranasinghe (Independent – appointed on 24 January 2020). CEO participates at the BNC meetings by invitation.	Complied with
3.(6) (v) Integrated Risk Management Committee/Board Risk Management Committee			
a.	Composition of BIRMC	Committee consists of three Non-Executive Directors, CEO/GM.DGM – Risk Management and any other officer participate by invitation. Non-Executive Directors of the Committee are Mr Sudarshan Ahangama (Chairman of BIRMC), Mr K A Vimalenthirarajah, Mr Isuru Balapatabendi and CEO/GM Mr Ranjith Kodithuwakku.	Complied with
b.	Risk assessment	BIRMC has implemented a procedure to assess risks such as credit, market, strategic, operational and liquidity risks of the Bank through relevant risk indicators and management information and such risks are reported to BIRMC through Quarterly risk report and Risk Matrix table.	Complied with
c.	Review of management level committees on risk	Committee has evaluated the adequacy and effectiveness of all managerial level committees against their current Terms of References (TOR).	Complied with
d.	Corrective action to mitigate risks exceeding prudential levels	Committee has reviewed and considered risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied with
e.	Frequency of meetings	BIRMC has held four (04) meetings during the financial year 2020 except at least one for 1st and 3rd quarters.	Complied with

CORPORATE GOVERNANCE

Section	Principle	Compliance and implementation	Complied
f.	Actions against officers responsible for failure to identify specific risks or implement corrective action	This is handle by the separate Board subcommittee being the BHRRC	Complied with
g.	Risk assessment report to Board	Committee submits Risk Minutes to the Board for their review	Complied with
h	Compliance function	<p>Committee has established a compliance function to assess the Bank's compliance with laws, regulations, and regulatory guidelines. Compliance Officer who has been designated as a KMP submits monthly reports on statutory and mandatory requirements/regulations and the status of compliance to the Board and Report on Compliance Risk to the BIRMC.</p> <p>Further, Compliance officer has initiated actions to submits a monthly compliance report to the Board for their awareness</p> <p>Compliance function annually obtains a confirmation from all departments heads to ensure bank's compliance with internal controls and approved policies on all areas of business operations of the Bank.</p>	Complied with
3.(7)	Related Party Transactions		
3.(7) (i)	Avoid conflict of interest GRI 102-25	<p>Code of Best Practice of the Bank Section 2.14 (approved by the Board on 30 September 2011) includes a documented Related Party Policy which speaks on categories of related parties, and for the bank to avoid any conflicts of interest that may arise from any transaction of the bank with them.</p> <p>Further, Head of Finance has established a Related Party Transaction Policy which has been recommended by the BAC and approved by the Board.</p>	Complied with
3.(7) (ii)	Related party transactions covered by direction	Board approved Code of Best Practice of the Bank Section 2.14 includes a documented policy which identifies types of related party transactions and for the Bank to avoid any conflicts of interest that may arise from any transaction with the related parties.	Complied with
3.(7) (iii)	Prohibited transactions	<p>As per the Board approved Code of Best Practice of the Bank Section 2.14 there is a documented policy which identifies types of related party transactions and to ensure that the Bank does not engage in such transactions in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same transaction with the Bank.</p> <p>Based on the declarations and information received from Directors and KMP, Bank identifies related party transactions via NIC and CIF from the system and submits a report to BIRMC on quarterly basis.</p> <p>This ensures that the Bank would not offer any "favourable treatment" to related parties than that accorded to other constituents of the Bank carrying on the same business.</p>	Complied with
3.(7) (iv)	Granting accommodation to a Director or close relation to a Director	<p>As per the Board approved Code of Best Practice Section 2.14.D, there is a documented policy which speaks on granting accommodation to any of its directors or to a (close relation) and key management personnel, and that such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board.</p> <p>However there was one exceptional loan, which had been subsequently remedied.</p>	Complied with
3.(7) (v)	Accommodations granted to persons, or concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank	<p>Board approved Code of Best Practice of the Bank Section 2.14.E, includes a documented policy as required by point No. 3(7)(v).</p> <p>There has been one such instance in 2020 necessary measures to remedy has taken in accordance with the cited section in the banking Act direction 11 of 2007.</p>	Complied with

CORPORATE GOVERNANCE

Section	Principle	Compliance and implementation	Complied
3.(7) (vi)	Favourable treatment or accommodation to Bank employees or their close relations	As per the Board approved Code of Best Practice Section 2.14.G there is a process in place at the Bank in this regard. No accommodation has granted to employees on a favourable basis other than the general schemes applicable to all employees of the Bank, such as staff loan facilities.	Complied with
3.(7) (vii)	Remittance of accommodations subject to Monetary Board approval	As per the Board approved Code of Best Practice Section 2.14.G there is a process in place at the Bank in this regard. However, one exceptional case described under Section 3(7) (v) as above.	Complied with
Disclosures			
3.(8) (i)	Publish annual and quarterly financial statements	Bank prepares and publishes financial statements accordingly. Quarterly financial statements have been published in the newspapers in abridged form, in Sinhala, Tamil and English.	Complied with
3.(8) (ii)	Disclosures in Annual Report		
a.	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	The statement to this effect is included in the Directors' Responsibility for Financial Reporting on page 202 of the Annual Report 2020.	Complied with
b.	The report by the Board on the Bank's internal control mechanism	Report by the Board on the bank's internal control mechanism has been disclosed in the "Directors' Statement on Internal Control" on page 197 to 198 in the Annual Report 2020.	Complied with
c.	External Auditor's certification on the effectiveness of the internal control mechanism	"Auditor General's Assurance Report" on Internal Controls disclosed on page 199 in their Annual Report 2020.	Complied with
d.	Details of Directors, including names, fitness and propriety, transactions with the Bank, and the total of fees/ remuneration paid by the Bank	Details of directors, including names, qualifications and experience disclosed under Profiles of Directors are given on pages 28-29. Directors' Emoluments have been disclosed under Note 13 to the Financial Statements on page 236. Aggregate value of Remuneration and transactions with Directors 2020.	Complied with
			LKR '000
Short-term employee benefits			6,877.4
Post-employment pension			-
Termination benefits			-
Share-based payments			-
Other long-term benefits			-
Loans and advances including credit cards			1,310.8
Deposits			12,741.4
Investments			-

CORPORATE GOVERNANCE

Section	Principle	Compliance and implementation	Complied																											
e	Total accommodations granted to each category of related parties and as a percentage of the Bank's regulatory capital	<p>Total accommodation granted to related parties 2020</p> <table border="1"> <thead> <tr> <th></th> <th>LKR '000</th> <th>Percentage of Bank's regulatory capital</th> </tr> </thead> <tbody> <tr> <td>Directors</td> <td>1,310.8</td> <td>0.002</td> </tr> <tr> <td>Closed Family Members of the Directors</td> <td>–</td> <td>–</td> </tr> <tr> <td>Key Management Personnel (KMP)</td> <td>89,841.8</td> <td>0.113</td> </tr> <tr> <td>Closed Family Members of the KMP</td> <td>9,826.6</td> <td>0.012</td> </tr> <tr> <td>Subsidiaries</td> <td>2,956,960.0</td> <td>3.715</td> </tr> <tr> <td>Sub Subsidiaries</td> <td>147,944.6</td> <td>0.186</td> </tr> <tr> <td>Government and Government Related Entities</td> <td>935,282,528</td> <td>1,174.918</td> </tr> <tr> <td>Concern in which any of the Bank's Directors or Close Family Member of any of the Bank's Directors or any of its material shareholder has a substantial interest</td> <td>61,891.8</td> <td>0.078</td> </tr> </tbody> </table>		LKR '000	Percentage of Bank's regulatory capital	Directors	1,310.8	0.002	Closed Family Members of the Directors	–	–	Key Management Personnel (KMP)	89,841.8	0.113	Closed Family Members of the KMP	9,826.6	0.012	Subsidiaries	2,956,960.0	3.715	Sub Subsidiaries	147,944.6	0.186	Government and Government Related Entities	935,282,528	1,174.918	Concern in which any of the Bank's Directors or Close Family Member of any of the Bank's Directors or any of its material shareholder has a substantial interest	61,891.8	0.078	Complied with
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f.	Aggregate values of remuneration to, and transactions with KMP	<p>Aggregate Value of Remuneration and Transactions with KMP 2020</p> <table border="1"> <thead> <tr> <th></th> <th>LKR '000</th> </tr> </thead> <tbody> <tr> <td>Short-term employee benefits</td> <td>390,929.0</td> </tr> <tr> <td>Post-employment pension</td> <td>26,426.6</td> </tr> <tr> <td>Termination benefits</td> <td>28,869.2</td> </tr> <tr> <td>Share-based payments</td> <td>–</td> </tr> <tr> <td>Other long-term benefits</td> <td>–</td> </tr> <tr> <td>Loans and advances including credit cards</td> <td>89,841.8</td> </tr> <tr> <td>Deposits</td> <td>368,164.7</td> </tr> <tr> <td>Investments</td> <td>–</td> </tr> </tbody> </table>		LKR '000	Short-term employee benefits	390,929.0	Post-employment pension	26,426.6	Termination benefits	28,869.2	Share-based payments	–	Other long-term benefits	–	Loans and advances including credit cards	89,841.8	Deposits	368,164.7	Investments	–	Complied with									
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g.	External Auditors certification of compliance	Board has obtained the Auditor General's Factual Findings Report on Corporate Governance. All findings of the Auditors have been incorporated in this Corporate Governance Report.	Complied with																											
h.	Report confirming compliance with prudential requirements, regulations, laws, and internal controls	This has been disclosed in "Directors' Responsibility for Financial Reporting" on page 202 of the Annual Report 2020.	Complied with																											
i.	Non-Compliance Report GRI 102-34	As per the confirmation of compliance officer no such instances/occurrences during 2020.	Complied with																											

BOARD SUBCOMMITTEE REPORTS

Board Audit Committee Report (BAC)

The Board Audit Committee (BAC) of the Bank was constituted in accordance with the provisions of Banking Act Direction No. 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka. Proceedings of BAC were based on the charter adopted by the Board of Directors for the functioning of the Committee.

The committee comprises of 3 non executive independent directors as at the end of the year.

- Mr Sudharshan Ahangama – Chairman
- Mr K.A Vimalenthirajah
- Mr Keerthi Goonatillake

The quorum for a BAC meeting is two (02) members.

The Actg. Board Secretary functions as the Secretary to the BAC. Chief Internal Auditor, Deputy General Manager (Risk Management), Head of Finance and Assistant General Manager (Compliance) attend the BAC meetings on invitation. The Superintendent of the Government Audit also attends these meetings.

The BAC in particular

- Reviews the financial reporting process to ensure the compliance with financial reporting requirements under the statute.
- Examines the system of internal control and management of business risks.
- Reviews the audit processes, both external and internal.
- Reviews the procedures in place for monitoring compliance with laws and regulations and in particular the guidelines of the Central Bank of Sri Lanka.

The Committee during the year under review attended to the following:

- a. Approved the annual audit plan prepared based on risk profiles of the areas of the Bank for the year 2020 and 2021.
- b. Reviewed and discussed the Management Letter and the Report of the Auditor General issued in terms of Section 13 (7) (a) of the Finance Act No. 38 of 1971 for the year 2019 and the management responses thereon.
- c. Reviewed quarterly financial performance of the Bank for the year 2020 and recommended to submit the same to the Board.

- d. Reviewed and discussed issues raised at CBSL Statutory Examinations and follow-up examinations in 2018/19 and monitored the progress of rectification.
- e. Periodic review of internal audit reports and the performance of the Internal Audit Department.
- f. Reviewed Information System Procedures and recommended appropriate changes and monitored the progress of their implementation.
- g. Reviewed the special reports such as Root Cause Analysis over deficiencies of Branch Operations and Non performing Loans.

Nine (09) meetings were held during the financial year ended 31 December 2020. The BAC considered the internal audit reports, the deficiencies observed therein, responses given by the respective DGMM/Heads of the Departments and monitored corrective actions taken to rectify deficiencies observed. The minutes of the BAC meetings are reported to the Board for information.

The BAC also followed up on corrective measures taken by the management during the year 2020 on matters raised by CBSL Statutory Examination Reports.

The BAC ensured the provision of all information and documents required by the Auditor General for the purpose of audit and compliance with Sri Lanka Accounting Standards in preparation and presentation of Financial Statements. The BAC is of the view that adequate controls and procedures are in place and Charter of the BAC were complied with all material aspects.



SUADHARSHAN AHANGAMA
Chairman
Board Audit Committee

24 February 2021

BOARD SUBCOMMITTEE REPORTS

Board Human Resources and Remuneration Committee (BHRRC) Report

Scope

The BHRRC is responsible for formulating human resource (HR) and remuneration policies and initiating strategies in relation to human resource management. The Committee ensures these policies are reviewed regularly and are adhered to in all circumstances.

The Committee plays a key role in recruitment and determining salaries and other employee benefits. It has vested authority to consider service extensions of the Executive Management and make recommendations to the Board. The Committee reviews employment contracts of the members of the Corporate and Executive Management as well.

Composition

The Committee consists of at least two Directors of the Board and the Chief Executive Officer/General Manager (CEO/GM).

Present members of BHRRC are:

- Mr Sujeewa Rajapakse - Chairman
- Mr Malindu Ranasinghe - Director
- Mr Manjula Wellalage - Director
- Mr Ranjith Kodituwakku - CEO/GM

SDGM (HR) and DGM (HR) attend meetings on invitation and any other officer of the Bank may be present at meetings by invitation.

Committee meetings

The Committee meets once in two months to address matters within its scope and report to the Board. The quorum for the BHRRC meeting is two Directors of the Board and the CEO/GM.



SHYAMA WIJEKOON

Acting Secretary to the Board

24 February 2021

Board Integrated Risk Management Committee (BIRMC) Report

Scope

The BIRMC is responsible for implementing the risk strategy of the Bank as stipulated by the Board of Directors. The Committee has been given the responsibility to approve frameworks for efficient functioning of the business units and monitoring of risks.

The Committee is responsible for reviewing the risk profile of the Bank within the risk parameters determined by the Board.

The Committee is responsible for the assessment of all risks pertaining to credit, market, liquidity, operational, and strategic risks, using appropriate risk indicators and management information and make recommendation to the Board.

Among other responsibilities related to risk management, the Committee monitors risk oversight, implementation and risk management in relation to credit, finance, operations and legal/compliance and takes corrective action promptly to mitigate the risks.

Composition

The Committee consists of at least three Directors of the Board and the CEO/GM.

Present members of BIRMC are:

- Mr Sudarshan Ahangama - Chairman
- Mr K A Vimalenthirarajah - Director
- Mr Isuru Balapatabendi - Director
- Mr Ranjith Kodituwakku - CEO/GM

DGM (Risk Management) and any other officer of the Bank may be present at meetings by invitation.

Committee meetings

The Committee meets quarterly to address matters pertaining to risk management and makes recommendations to the Board. The quorum for the BIRMC meeting is two Directors of the Board and the CEO/GM.



SHYAMA WIJEKOON

Acting Secretary to the Board

24 February 2021

BOARD SUBCOMMITTEE REPORTS

Board Executive Credit Committee (BECC) Report

Scope

The BECC is authorised to approve all credit proposals over the limit of CEO/GM and to the members of the staff above the grade of Assistant General Manager grade.

The BECC is also empowered to consider credit rescheduling proposals and lump sum settlement.

Composition

The Committee consists of at least two Directors of the Board and the CEO/GM.

Present members of BECC are:

- Mr Kumar Gunawardana - Chairman
- Mr Keerthi Goonatillake - Director
- Mr Manjula Wellalage - Director
- Mr Ranjith Kodituwakku - CEO/GM

Any other officer of the Bank may be present by invitation.

Committee meetings

The Committee meets at least twice a month. The quorum for the meeting of BECC is three members including two Directors of the Board.



SHYAMA WIJEKOON
Acting Secretary to the Board

24 February 2021

Board Nomination Committee (BNC) Report

Scope

Main function of the BNC is to implement a procedure to select/appoint a CEO/GM and Key Management Personnel. The Committee sets the eligibility criteria for appointment or promotion to the post of CEO/GM and the key management positions.

The Committee is also responsible for consideration and recommendation of the requirement for additional/new expertise and the succession arrangements for retiring Key Management Personnel.

Composition

The Committee consists of at least three Directors of the Board.

Present members of BNC are:

- Mr Sujeewa Rajapakse - Chairman
- Mr Sudarshan Ahangama - Director
- Mr Malindu Ranasinghe - Director

CEO/GM attends the meetings on invitation.

Committee meetings

The Committee meets at quarterly intervals and reports to the Board. The quorum for the meetings of BNC is three Directors of the Board.



SHYAMA WIJEKOON
Acting Secretary to the Board

24 February 2021

BOARD SUBCOMMITTEE REPORTS

Board Investment Banking Committee (BIBC) Report

Scope

The BIBC was constituted to regularly review the investment banking model and operations of Investment Banking Unit of the Bank. The Committee is authorised to grant approval for share trading limits, new investment products and deploying stock brokers, trading platforms and IT Systems.

Composition

The Committee consists of at least two Directors of the Board and the CEO/GM.

Present members of BIBC are:

- Mr K A Vimalenthirarajah - Chairman
- Mr Kumar Gunawardana - Director
- Mr Isuru Balapatabendi - Director
- Mr Ranjith Kodituwakku - CEO/GM

Head of Treasury and investment banking, DGM (Risk Management) and any other officer of the Bank may attend the meetings on invitation.

Committee meetings

The Committee meets quarterly to attend on the matters within its scope. The quorum for the meeting of BIBC is three members including two Directors of the Board.



SHYAMA WIJEKON

Acting Secretary to the Board

24 February 2021

Board Information Technology Committee (BITC) Report

Scope

The BITC was established to facilitate the degree of reliance on information technology and assist the Bank with the growing demand for IT Governance.

The Committee is responsible to formulate overall strategies for IT and make recommendations to the Board on the latest technologies to cater the impending demands.

Composition

The Committee consists of at least two Directors of the Board.

Present members of BITC are:

- Mr Keerthi Goonatillake - Chairman
- Mr Kumar Gunawardana - Director
- Mr Malindu Ranasinghe - Director

Any other officer of the Bank may attend the meetings on invitation. The quorum for the meeting of BITC is two members.



SHYAMA WIJEKON

Acting Secretary to the Board

24 February 2021

BOARD SUBCOMMITTEE REPORTS

Board Strategic Plan Review Committee (BSPRC) Report

Scope

The Board Strategic Plan Review Committee was established to regularly review the smooth implementation of the objectives cited in the Strategic Plan. The Committee is authorised to review the performance of all business heads and assist them to achieve business goals within the stipulated time period.

Composition

The Committee shall be appointed by the Board and it consists of at least two Directors and the CEO/GM.

Present members of BSPRC are:

- Mr Sujeewa Rajapakse - Chairman
- Mr Isuru Balapatabendi - Director
- Mr Keerthi Goonatillake - Director
- Mr Sudarshan Ahangama - Director
- Mr Ranjith Kodituwakku - CEO/GM

DGM (Strategic Planning and Performance Management) and any other officer of the Bank may be present at meetings by invitation.

Committee meetings

The Committee meets quarterly and the quorum for the meeting is two members.



SHYAMA WIJEKON

Acting Secretary to the Board

24 February 2021

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

In line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), the Board of Directors presents this Report on Internal Controls over Financial Reporting of the People's Bank ("The Bank").

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at the Bank. In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank.

In the light of foregoing, the system of internal controls can only provide reasonable, and not absolute assurance, against material misstatement of financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal control over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and in accordance with the "Guidance for Directors of Banks on the Directors Statement on Internal Control" issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control over financial reporting taking into account, principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process adopted in applying in reviewing the design and effectiveness of the internal control system over financial reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Establishment of Board subcommittees to assist the Board in ensuring the effectiveness of the Bank's daily operations and, that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Internal audit assignments are carried out on all units and branches, the frequency of which is determined by the level of risk assessed to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee (BAC) for review at their periodic meetings.
- The BAC of the Bank reviews internal control issues identified by the Internal Audit Department, regulatory authorities and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of same. The minutes of the BAC meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Details of the activities undertaken by the BAC of the Bank are set out in the Board Audit Committee Report (refer page 192).
- In assessing the internal control system, identified officers of the Bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. The Internal Audit Department of the Bank continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

- In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure are being made whilst further strengthening of processes will take place pertaining to impairment of loans and advances, credit card operations, management information system and financial statement disclosures related to risk management and related parties. The assessment was not included the subsidiaries of the Bank.
- The Board took necessary steps to implement requirements of the Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) in 2018. The required models have been implemented and processes and controls have been designed. The Board will continuously strengthen the processes and controls over management information system and reports required for validation and compliance in line with SLFRS 9.
- The Internal Audit Department carried out data analysis on certain selected processes of the Bank using computer aided audit techniques/tools covering the entire branch network. All significant findings identified by the Internal Audit Department were submitted to the Board Audit Committee for review at their periodic meetings.
- The comments made by the External Auditors in connection with the internal control system during the financial year 2019 were taken into consideration and steps have been taken to incorporate them where appropriate. Further appropriate measures have been initiated to develop procedures to improve the controls documentation on identification of related party transactions in the ensuing year.

Confirmation

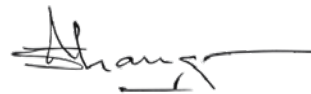
Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with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

Review of the statement by external auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control included in the Annual Report of the Bank for the year ended 31 December 2020, and reported to the Board that nothing has come to their attention that causes them to believe that the Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control System of the Bank.

The Assurance Report of the External Auditors in connection with Internal Control Over Financial Reporting is appearing on page 199 of the Annual Report.

For and on behalf of the Board,



SUDHARSHAN AHANGAMA
Chairman
Board Audit Committee
19 March 2021

AUDITOR GENERAL'S ASSURANCE REPORT ON INTERNAL CONTROLS



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BAF/D/PB/2021/04

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Your No. }

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Date }

24 March 2021

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of People's Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") of People's Bank included in the annual report for the year ended 31 December 2020.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3(8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibility and Compliance with SLSAE 3050 (Revised)

My responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the People's Bank.

I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka. This Standard required that I plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control. For purpose of this engagement, I am not responsible for updating or reissuing any reports, nor have I, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

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

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

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

The procedures selected depend on my judgement, having regard to my understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Conclusion

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the Annual Report is inconsistent with my understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

W P C WICKRAMARATHNE
Auditor General





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ANNUAL REPORT
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PRIDE

OF THE NATION



**PEOPLE'S
BANK**

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DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Board of Directors of the Bank has responsibility for ensuring that the Bank keeps proper books of account of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit/loss for the year.

Accordingly, the Board of Directors oversees the Managements' responsibilities for financial reporting through their regular meeting reviews and the Audit Committee. The Audit Committee Report is given on page 192.

The Board of Directors has instituted effective and comprehensive system of Internal Control. This comprises Internal Checks, Internal Audit and the whole system of financial and other controls required to carry on business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records. Directors consider that they adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgement and estimates in preparing the Financial Statements for the year 2020 exhibited on pages 205 to 328.

The Board of Directors ensure the compliance with prudential requirements, regulations, laws and internal controls, and measures have been taken to rectify any material non-compliances.

The Bank's Financial Statements for the year ended 31 December 2020 prepared and presented in this Report are in conformity with the requirements of Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988, the amendments thereto. The Financial Statements reflect a true and fair view of the state of affairs of the Bank and the Group as at that date as per the External Auditors' Report.



SHYAMA WIJEKON
Acting Secretary to the Board

25 February 2021

AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS



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BAF/D/PB/2021/01

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Date }

08 March 2021

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the People's Bank and its Subsidiaries for the year ended 31 December 2020 in terms of Section 12 of the National Audit Act No. 19 of 2018.

1. Financial statements

1.1 Opinion

The audit of the financial statements of People's Bank (the "Bank") and the consolidated financial statements of the Bank and its Subsidiaries (the "Group") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. The Bank has been exempted from the provisions of Part II of the Finance Act No. 38 of 1971 by an Order of the Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Section 5 (1) of the said Finance Act. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for opinion

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

1.3 Other information included in the Bank's 2020 Annual Report

The other information comprises the information included in the Bank's 2020 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

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

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

When I read the Bank's 2020 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

1.4 Responsibilities of Management and those charged with governance for the financial statements

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

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



AUDITOR GENERAL’S REPORT ON FINANCIAL STATEMENTS



Those charged with governance are responsible for overseeing the Bank’s and the Group’s financial reporting process.

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

1.5 Auditor’s responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s and Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

2. Report on other legal and regulatory requirements

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

- 2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of Section 12 (a) of the National Audit Act No. 19 of 2018.
- 2.1.2 The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- 2.1.3 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

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

- 2.2.1 To state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal course of business as per the requirement of Section 12 (d) of the National Audit Act No. 19 of 2018;
- 2.2.2 To state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of Section 12 (f) of the National Audit Act No. 19 of 2018;
- 2.2.3 To state that the Bank has not performed according to its powers, functions and duties as per the requirement of Section 12 (g) of the National Audit Act No. 19 of 2018;
- 2.2.4 To state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of Section 12 (h) of the National Audit Act No. 19 of 2018.

W P C Wickramaratne
Auditor General

INCOME STATEMENT

For the year ended 31 December	Note	Bank			Group		
		2020 LKR '000	2019 ² LKR '000	Change %	2020 LKR '000	2019 ² LKR '000	Change %
Gross income	6	190,981,708	199,728,985	-4.4	223,898,429	238,218,731	-6.0
Interest income		179,717,526	186,714,218	-3.7	207,011,058	219,926,048	-5.9
Interest expenses		(118,783,744)	(125,507,699)	-5.4	(132,580,099)	(141,316,697)	-6.2
Net interest income	7	60,933,782	61,206,519	-0.4	74,430,959	78,609,351	-5.3
Fee and commission income		6,723,826	7,336,594	-8.4	7,816,265	8,595,802	-9.1
Fee and commission expense		(482,522)	(426,758)	13.1	(482,522)	(426,758)	13.1
Net fee and commission income	8	6,241,304	6,909,836	-9.7	7,333,743	8,169,044	-10.2
Net gain/(loss) from trading	9	2,589,121	2,721,543	-4.9	2,785,261	2,678,985	4.0
Other operating income (net)	10	1,951,235	2,956,630	-34.0	6,285,845	7,017,896	-10.4
Total operating income		71,715,442	73,794,528	-2.8	90,835,808	96,475,276	-5.8
Impairment charge	11	(11,567,174)	(8,488,026)	36.3	(17,566,149)	(11,677,519)	50.4
Net operating income		60,148,268	65,306,502	-7.9	73,269,659	84,797,757	-13.6
Personnel expenses	12	(19,722,367)	(19,494,074)	1.2	(23,693,466)	(23,968,761)	-1.1
Other expenses	13	(15,347,735)	(17,236,449)	-11.0	(20,258,765)	(23,660,142)	-14.4
Operating profit before Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Repayment Levy (DRL)		25,078,166	28,575,979	-12.2	29,317,428	37,168,854	-21.1
Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Repayment Levy (DRL) on financial services		(3,851,486)	(8,909,795)	-56.8	(4,670,725)	(11,506,461)	-59.4
Operating profit after Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Repayment Levy (DRL)		21,226,680	19,666,184	7.9	24,646,703	25,662,393	-4.0
Share of profits/(loss) of associates (net of tax)		-	-		878	(10,142)	-108.7
Profit before tax		21,226,680	19,666,184	7.9	24,647,581	25,652,251	-3.9
Income tax expenses	14	(7,051,737)	(6,740,501)	4.6	(8,557,095)	(9,474,083)	-9.7
Profit for the year		14,174,943	12,925,683	9.7	16,090,486	16,178,168	-0.5
Profit attributable to:							
Equity holders of the Bank		14,174,943	12,925,683	9.7	15,229,858	14,984,837	1.6
Non-controlling interests		-	-		860,628	1,193,331	-27.9
		14,174,943	12,925,683	9.7	16,090,486	16,178,168	-0.5
Earnings per share on profit	15						
Basic earnings per ordinary share (LKR)	15.1	14,175	12,926	9.7	15,230	14,985	1.6
Diluted earnings per ordinary share (LKR)	15.2	58	53	9.7	62	61	1.6

* Certain comparative figures have been reclassified to conform to the current period presentation (Refer Note 51)

The Notes appearing on pages 213 to 328 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Profit for the year	14,174,943	12,925,683	16,090,486	16,178,168
Other comprehensive income/(expense)				
Other comprehensive income that will not be reclassified to the income statement				
Net gains/(losses) on equity instruments at fair value through OCI	(67,773)	189,223	(12,379)	60,148
Net actuarial gains/(losses) on defined benefit plans	(12,151,314)	(10,051,678)	(12,050,743)	(10,071,728)
Deferred tax effect of gains/(losses) on defined benefit plans	3,402,368	2,814,470	3,374,264	2,819,408
Gains on revaluation of land and buildings	6,523,641	-	6,573,641	238,323
Deferred tax effect on revaluation gain of land and buildings	(1,826,619)	-	(1,840,619)	(66,730)
Deferred tax effect on land revaluation in previous years	-	-	-	(83,385)
Share of other comprehensive income of associate companies (net of tax)	-	-	-	(379)
	(4,119,697)	(7,047,985)	(3,955,836)	(7,104,343)
Other comprehensive income that will be reclassified to the income statement				
Net gains/(losses)(including change in ECL) on debt instruments at fair value through OCI	(12,418)	296,507	(6,616)	296,507
Net gains/(losses) on translating the Financial Statements of foreign operation	-	-	45,668	(50,796)
	(12,418)	296,507	39,052	245,711
Other comprehensive income for the year, net of taxes	(4,132,115)	(6,751,478)	(3,916,784)	(6,858,632)
Total comprehensive income for the year	10,042,828	6,174,205	12,173,702	9,319,536
Attributable to:				
Equity holders of the Bank	10,042,828	6,174,205	11,287,454	8,132,499
Non-controlling interests	-	-	886,248	1,187,037
	10,042,828	6,174,205	12,173,702	9,319,536

The Notes appearing on pages 213 to 328 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Bank			Group		
		2020 LKR '000	2019 LKR '000	Change %	2020 LKR '000	2019 LKR '000	Change %
Assets							
Cash and cash equivalents	17	71,461,242	50,703,158	40.9	72,899,208	51,594,638	41.3
Balances with Central Bank of Sri Lanka	18	14,196,565	38,858,470	-63.5	14,196,565	38,858,470	-63.5
Placements with banks	19	10,304,422	9,689,132	6.4	13,910,824	13,395,360	3.8
Derivative financial instruments	20	97,645	90,560	7.8	97,645	90,560	7.8
Financial assets – at fair value through profit or loss	21	46,425,027	79,514,568	-41.6	52,728,589	80,405,966	-34.4
Financial assets – at amortised cost							
Loans and advances to banks	22	23,610,101	29,771,919	-20.7	23,622,700	29,771,919	-20.7
Loans and advances to other customers	23	1,635,579,343	1,310,150,137	24.8	1,776,231,315	1,460,497,766	21.6
Debt instruments measured at amortised cost	24	357,107,701	280,935,892	27.1	365,900,452	290,739,848	25.9
Financial assets – at fair value through other comprehensive income (OCI)							
Equity instruments at fair value through OCI	25	1,937,778	1,997,896	-3.0	1,778,585	1,772,838	0.3
Debt instruments at fair value through OCI	26	2,632,231	2,573,067	2.3	2,899,609	2,573,067	12.7
Investments in subsidiaries	27	1,937,881	1,205,414	60.8	-	-	-
Investments in associates	28	-	-	-	531,963	531,085	0.2
Investment properties	29	1,261,338	1,263,045	-0.1	1,257,499	1,259,206	-0.1
Property, plant and equipment & right-of-use assets	30	38,405,839	34,310,028	11.9	48,101,865	43,744,442	10.0
Intangible assets and goodwill	31	702,181	700,875	0.2	1,007,730	1,090,714	-7.6
Net deferred tax assets	36	695,424	-	-	-	-	-
Other assets	32	23,763,947	31,642,057	-24.9	25,402,844	33,448,808	-24.1
Total assets		2,230,118,665	1,873,406,218	19.0	2,400,567,393	2,049,774,687	17.1
Liabilities							
Due to banks	33	164,489,623	207,484,446	-20.7	172,439,795	219,434,075	-21.4
Derivative financial instruments	20	976,486	59,748	1534.3	976,486	59,748	1534.3
Due to other customers	34	1,835,099,456	1,491,385,937	23.0	1,935,194,040	1,588,903,098	21.8
Other borrowings	35	36,362,434	17,324,960	109.9	36,362,434	16,289,502	123.2
Current tax liabilities		6,608,202	3,775,283	75.0	7,538,938	6,127,935	23.0
Net deferred tax liabilities	36	-	1,071,797	-100.0	805,442	2,821,420	-71.5
Other liabilities	37	41,041,170	34,625,117	18.5	51,271,458	45,610,085	12.4
Subordinated term debts	38	43,557,696	22,714,490	91.8	56,868,035	40,513,091	40.4
Total liabilities		2,128,135,067	1,778,441,778	19.7	2,261,456,628	1,919,758,954	17.8
Equity							
Stated capital/assigned capital	39	12,201,998	12,201,998	-	12,201,998	12,201,998	-
Statutory reserve fund	40	8,024,521	7,315,774	9.7	8,024,521	7,315,774	9.7
Other reserves	41	32,859,237	27,368,542	20.1	34,923,662	29,297,472	19.2
Retained earnings	42	48,897,842	48,078,126	1.7	72,268,676	70,339,829	2.7
Total shareholders' equity		101,983,598	94,964,440	7.4	127,418,857	119,155,073	6.9
Non-controlling interests		-	-	-	11,691,908	10,860,660	7.7
Total equity		101,983,598	94,964,440	7.4	139,110,765	130,015,733	7.0
Total equity and liabilities		2,230,118,665	1,873,406,218	19.0	2,400,567,393	2,049,774,687	17.1
Contingent liabilities and commitments	43	489,938,862	363,925,754	34.6	497,689,847	370,985,611	34.2


The Notes appearing on pages 213 to 328 form an integral part to these Financial Statements.


Certification

These Financial Statements give a true and fair view of the state of affairs of the Bank and its subsidiaries as at 31 December 2020 and the profit for the year then ended.


AZZAM A AHAMAT
 Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf:


SUJEEWA RAJAPAKSE
 Chairman


SUDARSHAN AHANGAMA
 Director


RANJITH KODITUWAKKU
 Chief Executive Officer/General Manager

Colombo
 25 February 2021

STATEMENT OF CHANGES IN EQUITY – BANK

	Stated capital/Assigned capital	
	Ordinary shares	Assigned capital
	LKR '000	LKR '000
Balance as at 1 January 2019	49,998	12,152,000
Total comprehensive income for the year		
Profit for the year	-	-
Other comprehensive income/(expense) (net of taxes)	-	-
Total comprehensive income/(expense)	-	-
Transactions with equity holders, recognised directly in equity		
Transfer to reserve during the year	-	-
Special levy to treasury/dividend	-	-
Total transactions with equity holders	-	-
Balance as at 31 December 2019	49,998	12,152,000
Balance as at 1 January 2020	49,998	12,152,000
Total comprehensive income for the year		
Profit for the year	-	-
Other comprehensive income/(expense) (net of taxes)	-	-
Total Comprehensive income/(expense)	-	-
Transactions with equity holders, recognised directly in equity		
Transfer to reserve during the year (Note 40) and (Note 41.4)	-	-
Special levy to treasury/dividend (Note 41.6)	-	-
Total transactions with equity holders	-	-
Balance as at 31 December 2020	49,998	12,152,000

STATEMENT OF CHANGES IN EQUITY – BANK

	Reserves					Total LKR '000
	Statutory reserve fund LKR '000	Revaluation reserve LKR '000	Other reserves LKR '000	Financial assets at FVOCI reserve LKR '000	Retained earnings LKR '000	
	6,669,490	14,051,911	11,826,601	130,436	46,329,489	
-	-	-	-	12,925,683	12,925,683	
-	-	-	485,730	(7,237,208)	(6,751,478)	
-	-	-	485,730	5,688,475	6,174,205	
646,284	-	873,864	-	(1,520,148)	-	
-	-	-	-	(2,419,690)	(2,419,690)	
646,284	-	873,864	-	(3,939,838)	(2,419,690)	
7,315,774	14,051,911	12,700,465	616,166	48,078,126	94,964,440	
7,315,774	14,051,911	12,700,465	616,166	48,078,126	94,964,440	
-	-	-	-	14,174,943	14,174,943	
-	4,697,022	-	(80,191)	(8,748,946)	(4,132,115)	
-	4,697,022	-	(80,191)	5,425,997	10,042,828	
708,747	-	873,864	-	(1,582,611)	-	
-	-	-	-	(3,023,670)	(3,023,670)	
708,747	-	873,864	-	(4,606,281)	(3,023,670)	
8,024,521	18,748,933	13,574,329	535,975	48,897,842	101,983,598	

STATEMENT OF CHANGES IN EQUITY – GROUP

	Stated capital/Assigned capital	
	Ordinary shares	Assigned capital
	LKR '000	LKR '000
Balance as at 1 January 2019	49,998	12,152,000
Total comprehensive income for the year		
Profit for the year	-	-
Other comprehensive income/(expense) (net of taxes)	-	-
Total comprehensive income/(expense)	-	-
Transactions with equity holders, recognised directly in equity		
Movement due to changes in ownership	-	-
Transfer to reserve during the year	-	-
Special levy to treasury/dividend	-	-
Dividends paid	-	-
Total transactions with equity holders	-	-
Balance as at 31 December 2019	49,998	12,152,000
Balance as at 1 January 2020	49,998	12,152,000
Total comprehensive income for the year		
Profit for the year	-	-
Other comprehensive income/(expense) (net of taxes)	-	-
Total comprehensive income/(expense)	-	-
Transactions with equity holders, recognised directly in equity		
Transfer to reserve during the year (Note 40) and (Note 41.4)	-	-
Special levy to treasury/dividend (Note 41.6)	-	-
Dividends paid	-	-
Total transactions with equity holders	-	-
Balance as at 31 December 2020	49,998	12,152,000

STATEMENT OF CHANGES IN EQUITY – GROUP

Statutory reserve fund	Reserves				Retained earnings	Total	Non-controlling interest	Total equity
	Revaluation reserve	Other reserves	Financial assets at FVOCI reserve					
	LKR '000	LKR '000	LKR '000	LKR '000				
6,669,490	15,797,815	12,098,979	130,436	66,494,500	113,393,218	10,120,232	123,513,450	
-	-	-	-	14,984,837	14,984,837	1,193,331	16,178,168	
-	66,156	(38,097)	368,319	(7,248,716)	(6,852,338)	(6,294)	(6,858,632)	
-	66,156	(38,097)	368,319	7,736,121	8,132,499	1,187,037	9,319,536	
-	-	-	-	49,046	49,046	(41,613)	7,433	
646,284	-	873,864	-	(1,520,148)	-	-	-	
-	-	-	-	(2,419,690)	(2,419,690)	-	(2,419,690)	
-	-	-	-	-	-	(404,996)	(404,996)	
646,284	-	873,864	-	(3,890,792)	(2,370,644)	(446,609)	(2,817,253)	
7,315,774	15,863,971	12,934,746	498,755	70,339,829	119,155,073	10,860,660	130,015,733	
7,315,774	15,863,971	12,934,746	498,755	70,339,829	119,155,073	10,860,660	130,015,733	
-	-	-	-	15,229,858	15,229,858	860,628	16,090,486	
-	4,724,022	34,251	(5,947)	(8,694,730)	(3,942,404)	25,620	(3,916,784)	
-	4,724,022	34,251	(5,947)	6,535,128	11,287,454	886,248	12,173,702	
708,747	-	873,864	-	(1,582,611)	-	-	-	
-	-	-	-	(3,023,670)	(3,023,670)	-	(3,023,670)	
-	-	-	-	-	-	(55,000)	(55,000)	
708,747	-	873,864	-	(4,606,281)	(3,023,670)	(55,000)	(3,078,670)	
8,024,521	20,587,993	13,842,861	492,808	72,268,676	127,418,857	11,691,908	139,110,765	

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cash flows from operating activities					
Profit before tax		21,226,680	19,666,184	24,647,581	25,652,251
Adjustment for					
Non-cash items included in profits before tax	48	17,615,543	11,533,364	25,158,730	15,918,796
Changes in operating assets	49	(266,101,032)	(67,264,515)	(267,691,303)	(70,841,952)
Changes in operating liabilities	50	312,438,945	111,744,283	311,535,738	113,568,374
Dividend income from subsidiaries and others		(888,451)	(1,649,546)	(173,024)	(221,470)
Interest expense on subordinated debt		3,689,299	1,818,086	5,722,717	4,142,736
Contribution to defined benefit plans/gratuity		2,585,372	1,509,520	2,707,923	1,623,197
Tax paid		(4,410,290)	(7,038,003)	(7,628,425)	(10,278,021)
Net cash generated from operating activities		86,156,066	70,319,373	94,279,937	79,563,911
Cash flows from investing activities					
Purchase of property, plant and equipment		(975,114)	(2,736,392)	(1,863,915)	(3,031,184)
Proceeds from the sale of property, plant and equipment		46,552	88,481	61,850	118,794
Purchase of financial investments		(76,792,745)	(79,672,137)	(75,781,540)	(81,430,355)
Net purchase of intangible assets		(196,222)	(430,317)	(207,914)	(439,871)
Dividends received from investment in subsidiaries and others		888,451	1,649,546	173,024	221,470
Net cash (used in) from investing activities		(77,029,078)	(81,100,819)	(77,618,495)	(84,561,146)
Cash flows from financing activities					
Proceed received from subordinated debt	38.1	20,000,000	10,000,000	20,000,000	10,000,000
Repayment of subordinated debt	38.1	-	-	(4,483,521)	(2,717,820)
Interest paid on subordinated debt	38.1	(2,846,093)	(1,637,500)	(4,884,252)	(3,996,351)
Repayment of lease liabilities	37.4	(2,499,141)	(2,338,139)	(2,910,428)	(2,704,360)
Dividend paid to non-controlling interest		-	-	(55,000)	(404,996)
Dividend/levy paid to holders of other equity instruments		(3,023,670)	(2,419,690)	(3,023,670)	(2,419,690)
Net cash from financial activities		11,631,096	3,604,671	4,643,129	(2,243,217)
Net increase/(decrease) in cash and cash equivalents		20,758,084	(7,176,775)	21,304,570	(7,240,452)
Cash and cash equivalents at the beginning of the year		50,703,158	57,879,933	51,594,638	58,835,090
Cash and cash equivalents at the end of the year		71,461,242	50,703,158	72,899,208	51,594,638

NOTES TO THE FINANCIAL STATEMENTS

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1. Reporting Entity

1.1 Corporate information

People's Bank ("The Bank") is a Government-owned bank, established under People's Bank Act No. 29 of 1961 on 1 July 1961 and is domiciled in Sri Lanka. The registered office of the Bank is at No. 75, Sir Chittampalam A Gardiner Mawatha, Colombo 02. The Consolidated Financial Statements of the Bank for the year ended 31 December 2020, comprises the Bank and its Subsidiaries (together referred to as the "Group").

People's Bank is the ultimate parent of the Group.

1.2 Principal activities

Bank

The Bank's business comprises, accepting deposits, granting credit facilities, personal banking, development banking, pawn brokering, international trade, dealing in Government Securities, credit card operations, investment banking and offshore banking unit for foreign currency banking, *inter alia*.

Subsidiaries

The principal activities of the Bank's subsidiaries are as follows:

Name of company	Principal activities
People's Leasing & Finance PLC	The principal business activities are providing finance leases, hire-purchase assets financing, term loans, Islamic finance, margin trading, share trading, issue of debt instruments, factoring, gold loans and mobilisation of public deposits.
People's Travels (Private) Limited	Arrangement of tours and air ticketing (travel agent).

Sub subsidiaries

The principal activities of the Bank's subsidiaries are as follows:

Name of company	Principal activities
People's Leasing Fleet Management Limited	Fleet management, vehicle valuation, sale of vehicles, insurance assessment, and vehicle repairing.
People's Leasing Property Development Limited	Carrying out a mixed development projects and property development activities.
People's Insurance PLC	Carrying out general insurance business.

Name of company	Principal activities
People's Micro – Commerce Limited	Providing non-bank financial services to low income earners and micro enterprises.
People's Leasing Havelock Properties Limited	Construct and operate an office complex.
Lankan Alliance Finance Limited	Providing leasing of movable and immovable properties and to provide loans.

Associate

The principal activities of the Group's associate is as follows:

Name of company	Principal activities
People's Merchant Finance PLC	Providing leasing, hire purchase, trade finance, real estate, short-term investments, and corporate financial Services.

2. Basis of Preparation

2.1. Statement of compliance

The Consolidated Financial Statements of the Group and the Separate Financial Statements of the Bank which comprise with the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, and Statement of Cash Flow have been prepared in accordance with Sri Lanka Accounting Standards (LKAS and SLFRS) as issued by The Institute of Chartered Accountants of Sri Lanka. The preparation and presentation of these Financial Statements are in compliance with the requirements of the People's Bank Act No. 29 of 1961. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988.

2.2 Directors responsibility for financial statements

The Board of Directors is responsible for the Consolidated and Separate Financial Statements in compliance with the requirements of the People's Bank Act No. 29 of 1961, Banking Act No. 30 of 1988 and its amendments, and Sri Lanka Accounting Standards (LKAS and SLFRS).

2.3 Approval of financial statements

The Consolidated and Separate Financial Statements for the year ended 31 December 2020, were authorised for issue on 25 February 2021 by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS

3. Basis of measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following items in the Statement of Financial Position:

- Derivative financial instruments are measured at fair value (Note 20)
- Financial instruments at fair value through profit or loss are measured at fair value (Note 21)
- Equity instruments at fair value through OCI are measured at fair value (Note 25)
- Debt instruments at fair value through OCI are measured at fair value (Note 26)
- The liability for defined benefit obligations are actuarially valued and recognised as the present value of the defined benefit obligation less the net total fair value of the plan assets (Note 37)
- Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation of buildings and any impairment losses (Note 30)

3.1 Functional and presentation currency

The Consolidated and Separate Financial Statements are presented in Sri Lanka Rupees, which is the Bank's functional currency. Financial information presented in Sri Lanka Rupees has been rounded to the nearest thousand unless indicated otherwise.

3.2 Materiality and aggregation

As per Sri Lanka Accounting Standards – LKAS 1 – “Presentation of Financial Statements”, each material class of similar item is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

3.3 Cash flow statement

The Cash Flow Statement has been prepared using the “Indirect Method” of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 – “Statement of Cash Flows”. Cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks and, money at call and short notice.

3.4 Comparative information

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

4. Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, Management has exercised judgement and estimates and assumptions in determining the amounts recognised in the Financial Statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about judgements, assumptions and estimates made in applying accounting policies that have the most significant effects on the amounts recognised in the Consolidated and Separate Financial Statements are set out below.

4.1 Going concern

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

4.2 Defined benefit obligations

The value of the defined benefit obligations are determined using actuarial valuation technique. The actuarial valuation involves making assumptions on discount rates, expected rates of return on assets, future salary increases, and mortality rates. All assumptions are reviewed at each reporting date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See Notes 37.1.5 and 37.2.5 for the assumptions used.

4.3 Fair value of property, plant and equipment

The freehold land and buildings and the buildings on leasehold land of the Group are reflected at fair value at the date of revaluation less any accumulated depreciation and impairment losses. The Group engaged independent valuation specialists to determine fair value of such properties. When current market prices of similar assets are available, such evidences are considered in estimating fair value of these assets.

NOTES TO THE FINANCIAL STATEMENTS

4.4 Useful life time of property, plant and equipment

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

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

4.5 Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 43.

4.6 Classification of investment properties

Management requires using its judgement to determine whether a property qualifies as an investment property. The Group has exercised its judgement consistently to recognise a property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group are accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Group assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

4.7 Critical accounting assumptions and estimates

Assumptions made at each reporting date are based on best estimates at that date. Although the Bank has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies which are most sensitive to the use of judgement, estimates and assumptions are specified below:

(i) Fair value measurement

A significant portion of financial instruments are carried at fair value as of the financial reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Bank has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

NOTES TO THE FINANCIAL STATEMENTS

(ii) Impairment charges on loans and advances

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Bank makes judgements mainly about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality/levels of arrears, credit utilisation etc.), and concentrations of risk and economic data (including levels of unemployment, Inflation, GDP Growth Rate etc.).

5. Significant accounting policies

Group has consistently applied the accounting policies as set out from Note 5.1 to Note 5.23 to all periods presented in these Consolidated and Separate Financial Statements.

5.1 Basis of consolidation

The Financial Statements of the Bank and the Group comprise the Financial Statements of the Bank and its Subsidiaries for the year ended 31 December 2020. The Financial Statements of the Bank's subsidiaries for the purpose of consolidation are prepared for the same reporting year as that of People's Bank, using consistent accounting policies.

5.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in Income Statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in Income Statement.

5.1.2 Non-controlling interests ("NCI")

NCI are measured at their proportionate share of the acquirer's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

5.1.3 Subsidiaries

"Subsidiaries" are investees controlled by the Group. The Group "controls" an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

5.1.4 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in Income Statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost.

5.1.5 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

5.2 Foreign currency translation

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange on the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

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

5.3 Financial instruments – Initial recognition

5.3.1 Date of recognition

A financial asset or financial liability is recognised in the Statement of Financial Position when the Bank becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and advances are recognised when cash is advanced (or settled) to the borrowers.

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Non-regular purchases of financial assets and liabilities are recognised on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument.

A regular purchase is a purchase of a financial asset under a contract whose terms require delivery of the assets within the time frame established generally by a regulation or convention in the market place concerned.

5.3.2 "Day 1" difference for staff loans

All staff loans are granted at below market interest rates and were recognised at fair value. The difference between the fair value and the amount disbursed were treated as day one difference and amortised as staff cost in the Income Statement over the loan period by using the effective interest rate. This amount is shown as interest income as well. Hence the net effect on the Income Statement is zero.

5.4 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 5.4.1 and 5.4.2 below. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, transaction costs are added to, or subtracted from, this amount.

5.4.1 Business model assessment

The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on Management's intention for an individual instruments. Accordingly the Group's business model is not an instrument-by-instrument approach to classification, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of a business model and the financial assets held within that business model are evaluated and reported to the Group's Key Management Personnel;
- The risk that affect the performance of the business model (and the financial assets held within the business model) and, in particular, the way in which those risks are managed;
- How managers of the business are compensated (whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows are realised in a way that is different from the Group's original expectations, that neither give a rise to a prior period error nor change the classification of the remaining financial assets held in that business model. However, when the Group assesses the business model for newly originated or newly purchased financial assets, it considers information about how cash flows were realised in the past, along with all other relevant information.

5.4.2 Contractual cash flow assessment – Solely Payments of Principal and Interest (SPPI test)

The Group assesses contractual cash flows of the basic lending arrangement to identify whether they meet SPPI test. That is whether they are solely payments of principal and interest on the principal amount outstanding.

For this purpose "Principal" is defined as the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset.

For this purpose "Interest" consist of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin. Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

NOTES TO THE FINANCIAL STATEMENTS

5.5 Measurement categories of financial assets and liabilities

All financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics measured at either –

- Amortised cost (Note 5.5.1)
- Fair value through other comprehensive income (Note 5.5.2)
- Fair value through profit or loss (Note 5.5.3)

5.5.1 Financial instruments measured at amortised cost

Debt instruments

Investments in debt instruments are measured at amortised cost where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in Note 5.6 Impairment of financial assets.

Loans and advances to banks, loans and advances to other customers

The Group measures loans and advances to banks and loans and advances to other customers including leases and hire purchase contracts at amortised cost since both of the following conditions are met:

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

5.5.2 Financial assets measured at fair value through other comprehensive income

Debt instruments

Investments in debt instruments are measured at fair value through other comprehensive income where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in profit and loss. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the Income Statement.

The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost. The expected credit loss model is described below in Note 5.6 Impairment of financial assets.

Equity instruments

Investment in equity instruments that are neither held for trading nor contingent consideration recognised by the Bank in a business combination to which SLFRS 3 – "Business Combinations" applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by Management. For portfolios where Management does not consider an irrevocable election of adopting fair value through other comprehensive income, by default such investments shall be measured at fair value through profit and loss.

Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

5.5.3 Financial assets at fair value through profit or loss

Items at fair value through profit or loss comprise:

- (a) Items held for trading;
- (b) Items specifically designated as fair value through profit or loss on initial recognition; and
- (c) Debt instruments with contractual terms that do not represent solely payments of principal and interest.

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

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

(a) Financial instruments held for trading

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

Trading derivatives and trading securities are classified as held for trading and recognised at fair value.

(b) Financial instruments designated as measured at fair value through profit or loss

Upon initial recognition, financial instruments may be designated as measured at fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch or:

- If a host contract contains one or more embedded derivatives; or
- If financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Bank's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

5.5.4 Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable, and typically comprise of instruments such as swaps, forward rate agreements, futures and options.

All derivatives are recognised in the Statement of Financial Position at fair value and are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

5.5.5 Reclassification of financial assets and liabilities

With the adoption of SLFRS 9, the Bank reclassifies its financial assets subsequent to the initial recognition when and only when the business model for managing such financial asset is changed. Such reclassification is applied prospectively from the reclassification date. Financial liabilities are never reclassified.

5.6 Impairment of financial assets

The Bank/Group applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

- Debt instruments measured at amortised cost and fair value through other comprehensive income;
- Loan commitments; and
- Financial guarantee contracts.

No ECL is recognised on equity investments.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

NOTES TO THE FINANCIAL STATEMENTS

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Bank determines 12-month ECL from customers whom are not significantly credit deteriorated (i.e. less than 30 days past due).

Stage 2: Lifetime ECL – Not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Inconsistent with the policies of the Bank, significant deterioration is measured through the rebuttable presumption of 30 days past due other than the credit facilities categorised under Stage 3, in line with the requirements of the standard.

Bank also have considered all restructured loans, which are restructured up to two times, other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage consider under Stage 2 as per the guidance issued by the Central Bank.

Stage 3: Lifetime ECL – Credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Bank determines credit facilities where contractual payments of a customer are more than 90 days past due which are subject to the rebuttable presumption as stated in SLFRS 9 together with all NPL classifications as per Central Bank classification, all restructured loans which are restructured more than twice and all rescheduled loans other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage and all credit facilities/customers classified as non-performing as per CBSL Directions under Stage 3.

5.6.1 Determining the stage for impairment

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The

Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12 months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-month ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the Income Statement.

The Bank assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, and other relevant factors.

5.6.2 Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive.
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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ECLs are recognised using a provision for doubtful debts account in profit and loss. In the case of debt instruments measured at fair value through other comprehensive income, the measurement of ECLs is based on the three-stage approach as applied to financial assets at amortised cost. The Bank recognises the provision charge in profit and loss, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount of the asset in the Statement of Financial Position.

5.7 Derecognition of financial assets and financial liabilities

5.7.1 Financial assets

The Bank derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

5.7.2 Financial liabilities

A financial liability is derecognised from the Statement of Financial Position when the Bank has discharged its obligation or the contract is cancelled or expires.

5.7.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the Statement of Financial Position when the Bank has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

5.8 Leases

5.8.1 Finance lease income

Assets leased to customers to whom the Group transfers substantially all the risks and rewards associated with ownership other than the legal title are classified as finance leases. Amounts receivable under finance leases are included under "Lease Rental Receivable". Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.

5.8.2 SLFRS 16 – Leases

SLFRS 16 supersedes LKAS 17 – "Leases". The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases.

Upon adoption of SLFRS 16, the Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Additionally, the Bank/Group applied the following practical expedients permitted by SLFRS 16 to leases previously classified as operating leases under LKAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application.

5.9 Cash and cash equivalents

Cash and short-term funds include cash in hand, balances with banks, placements with banks and money at call, and at short notice. Details of the cash and short-term funds are given in Note 17 to the Financial Statements.

5.10 Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the Statement of Financial Position.

5.11 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

5.11.1 Basis of recognition

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS

5.11.2 Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete.

The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard – LKAS 40 – “Investment Property”. Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses and buildings classified as investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

5.12 Intangible assets and goodwill

5.12.1 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of Group’s share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill acquired in a business combination is tested annually for impairment or more frequently if events or changes in circumstance indicate that it might be impaired and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

5.12.2 Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

5.12.3 Amortisation

Software is amortised on a straight-line basis in Income Statement over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is five years.

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

5.13 Impairment of non-financial assets

5.13.1 Basis of recognition

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available-fair-value indicators.

5.13.2 Measurement

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

Impairment losses relating to goodwill are not reversed in future periods.

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Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's CGUs or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with SLFRS 8 – "Operating Segments".

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Income Statement.

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5.14 Pension benefits

5.14.1 Defined benefit pension plans

5.14.1.1 Pre-1996 – Pension Trust Fund

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1 January 1996, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit method.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31 December 2020, by Mr Piyal S Gunatilleke FSA (USA), Member of the American Academy of Actuaries and Consulting Actuary.

The Bank provides a pension to retiring staff on the following basis; staff are eligible to draw a pension after 10 years of service and after reaching normal age of retirement of 55 years. The quantum of pension paid is dependent on the length of service as follows:

Length of service	Quantum of pension
i. 10 to 20 years	80% of last drawn gross salary
ii. 21 to 29 years	80% plus 1% for each additional year in excess of 20 years of last drawn gross salary
iii. 30 years and above	90% of last drawn gross salary

The Financial Statements of the Pension Trust Fund are maintained separately and are subject to annual audit by Independent External Auditors. The Financial Statements as well as the Auditor's Report are tabled and reviewed by the Board of Trustees. These Financial Statements and Auditor's Report are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at required levels. Pension is payable monthly as long as the participant is alive.

5.14.1.2 Post-1996 – Pension Fund

As approved by the Ministry of Finance the Bank has almost finalised a new pension fund for permanent employees who joined the Bank post 1 January 1996. Since the Bank has concluded this as a defined benefit plan, the surplus/deficit has been recorded as per LKAS 19.

The latest actuarial valuation was carried out as of 31 December 2020, by Mr Piyal S Gunatilleke FSA (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

5.14.1.3 Gratuity

Employees who joined the Bank on or after 1 January 1996 will be eligible for Gratuity under the Payment of Gratuity Act No. 12 of 1983, or if opted can join the proposed new Post-1996 Pension Fund and if so such employees will forfeit their right to gratuity.

Other employees whose services are terminated other than by retirement are eligible to receive Terminal Gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one-half of gross salary applicable to the last month of the financial year in which employment is terminated, for each year of continuous service, for those who have served in excess of five years.

If a participant who has completed five years of services becomes totally and permanently disabled, he is eligible for disability gratuity. Further, if an active participant with minimum of five years of service, dies while in service, a gratuity benefit will be paid to his heirs.

NOTES TO THE FINANCIAL STATEMENTS

The Bank makes a monthly provision towards such Gratuity Payment Liabilities and this value is reflected in the Statement of Financial Position of the Bank, the Bank made a provision based on the Actuarial Valuation. However, as per Sri Lanka Accounting Standards the Bank has provided for gratuity liability based on an actuary valuation.

The subsidiary and associate companies of the Bank provide for gratuity under the Payment of Gratuity Act No. 12 of 1983. Provision for Gratuity has been made for employees who have completed one year of service with the companies. These liabilities are not externally funded.

5.14.2 Defined contribution plans

The Bank also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability.

The Bank contributes to the following schemes:

5.14.2.1 Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act and is maintained internally.

5.14.2.2 Employees' Trust Fund

The Bank contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

5.15 Widow's/Widowers' and Orphans Pension Plan (Pre-1996/Post-1996)

A separate fund is maintained in order to meet future obligations under the scheme, based on the advice of a qualified actuary. Further, this fund is solely funded through the contributions of participants/ employees.

5.16 Provision

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

5.17 Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a subsidiary or associate for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

5.17.1 Basis of recognition

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees, and acceptances. Financial guarantees are initially recognised in the financial under commitments at facility value.

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

5.17.2 Measurement

Any increase in the commitment relating to financial guarantees is recorded in the Statement of Financial Position. The premium received is recognised in the Income Statement in "Net fees and commission income" on a straight-line basis over the life of the guarantee.

5.18 Taxes

5.18.1 Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the statement of financial position date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 at the rates specified in Note 14 to the Financial Statements.

5.18.2 Deferred taxation

Deferred tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

NOTES TO THE FINANCIAL STATEMENTS

5.18.2.1 Deferred tax liability

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will reverse in the foreseeable future.

5.18.2.2 Deferred tax assets

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

- Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each statement of financial position date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each statement of financial position date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the statement of financial position date.

5.18.3 Value Added Tax on Financial Services (FSVAT)

Bank's total value addition was subjected to a 15% value added tax as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

5.18.4 Value Added Tax (VAT)

Value added tax is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. VAT is payable at the rate of 15% from 1 January 2019 to 30 November 2019 and at the rate of 8% from 1 December 2019 onwards.

5.18.5 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set-off against the income tax payable in the four subsequent years. Economics service charges has been abolished with effect from 1 January 2019.

5.18.6 Withholding Tax on dividends (WHT)

Dividend distributed out of taxable profit of the local subsidiaries attracts a 14% deduction at source and is final tax liability for of the Bank. Withholding tax on dividends has been abolished with effect from 1 January 2019.

5.18.7 Crop Insurance Levy (CIL)

As per the provision of the Section 14 of the Finance Act No. 12 of 2013, the Crop Insurance Levy (CIL) was introduced with effect from 1 April 2013. Accordingly, Bank is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund.

5.18.8 Nation Building Tax (NBT)

As per the provisions of the Nation Building Tax Act No. 09 of 2009 and the subsequent amendments thereto, Nation Building Tax should be payable at the rate of 2% with effect from 1 January 2019 on the liable turnover as per the relevant provisions of the Act. Nation Building Tax has been abolished with effect from 1 December 2019.

5.18.9 Nation Building Tax on Financial Services (FSNBT)

With effect from 1 January 2014, NBT of 2% was introduced on supply of financial services via amendment to the NBT Act No. 09 of 2009. This Tax has been abolished with effect from 1 December 2019.

5.18.10 Debt Repayment Levy (DRL)

The Debt Repayment Levy (DRL) has been imposed by the Section 36 of Finance Act No. 35 of 2018. A levy of 7% is charged on the value addition attributable to the supply of financial services under the provisions of the Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. This tax has been abolished with effect from 1 January 2020.

NOTES TO THE FINANCIAL STATEMENTS

5.19 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The specific recognition criteria for each type of income are given in Notes 6 to 10.

5.19.1 Income from Government Securities and Securities Purchased under Resale Agreements

Discounts/premium on Treasury Bills and Treasury Bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on Treasury Bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreements is recognised in the Income Statement on effective interest rate (EIR) over the period of the agreement.

5.19.2 Rental income

Rental income arising on operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the Income Statement in "other operating income".

5.20 Segmental reporting

The Bank's segmental reporting is based on the following operating segments: Retail Banking, Corporate Banking and Treasury, and Primary Dealer Unit, Leasing, Insurance Finance and Travels. Information relating to above is disclosed in Note 47.

5.21 Deposit insurance scheme

In terms of the Banking Act Direction No. 5 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments there to, all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations No. 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1 October 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following:

- Deposit liabilities to member institutions
- Deposit liabilities to Government of Sri Lanka
- Deposit liabilities to Directors, Key Management Personnel, and other related parties as defined in Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- Deposit liabilities held as collateral against any accommodation granted

- Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka.

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a Capital Adequacy Ratio (CAR) of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks (with CAR below 14%) calculated on the total amount of eligible deposits as at the end of the quarter payable within a period of 15 days from the end of the quarter.

5.22 Subsequent events

Events occurring after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date of the Financial Statements are authorised for issue.

All material and important events which occur after reporting date have been considered and disclosed in Note 44 to the Financial Statements as adjusted as applicable.

5.23 Policies specific to insurance sector

5.23.1 Significant accounting estimates and assumptions

Non-life insurance contract liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the Statement of Financial Position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods and Frequency/Severity method.

NOTES TO THE FINANCIAL STATEMENTS

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

5.23.2 Revenue recognition

Gross written premium

Non-life insurance gross written premium comprises the total premium receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

Reinsurance premium

Non-life gross reinsurance premium written comprises the total premium payable for the whole cover provided by contracts entered into the period and is recognised on the date on which the policy incepts. Premium includes any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premium is the proportion of premium written in a year that relates to periods of risk after the reporting date. Unearned reinsurance premium is deferred over the term of the underlying direct insurance policies.

NOTES TO THE FINANCIAL STATEMENTS

6. Gross income**▶ Accounting policy**

Revenue is recognised to the extent that it is probable that the economic benefit(s) will flow to the Bank/Group and the revenue can be reliably measured. The specific recognition criteria for each type of income are more fully set off in respective income notes.

For the year ended 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Interest income	7.1	179,717,526	186,714,218	207,011,058	219,926,048
Fee and commission income	8.1	6,723,826	7,336,594	7,816,265	8,595,802
Net gain/(Loss) from trading	9	2,589,121	2,721,543	2,785,261	2,678,985
Other operating income (Net)	10	1,951,235	2,956,630	6,285,845	7,017,896
		190,981,708	199,728,985	223,898,429	238,218,731

7. Net interest income**▶ Accounting policy**

The Bank/Group calculates interest income/expense by applying the effective interest rate [EIR] to the amortised cost of financial assets/liability other than credit impaired assets.

The effective interest rate method

Under SLFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments measured at Fair Value through Profit or Loss (FVPL) and interest bearing financial assets measured at Fair Value through Other Comprehensive Income (FVOCI). Interest expense is recorded using the effective interest rate (EIR) method for liabilities recorded such as due to banks, due to other customers and other borrowings.

EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the said financial instrument and includes any fees or incremental costs that are directly attributable to the instrument which are an integral part of the EIR, but excludes future credit losses.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

7.1 Interest income

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cash and cash equivalents	527,684	396,119	550,000	396,119
Placements with banks	1,987,526	972,822	2,222,532	1,132,797
Loans and advances – to banks	1,486,486	3,583,256	1,506,641	3,583,256
Financial assets – at fair value through profit or loss	3,813,643	8,141,027	3,813,643	8,141,027
Loans and advances to other customers	147,279,023	149,016,003	173,629,103	180,938,719
Debt instruments measured at amortised cost	23,550,057	22,765,540	24,134,124	23,894,679
Debt instruments at fair value through OCI	250,767	309,500	332,675	309,500
Day one difference on staff loans	822,340	1,529,951	822,340	1,529,951
Total interest income	179,717,526	186,714,218	207,011,058	219,926,048

7.2 Interest expenses

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Due to banks	10,427,789	7,795,088	11,524,394	10,515,499
Due to other customers	102,486,876	113,804,989	113,027,253	124,493,472
Other borrowings	1,460,161	1,279,428	1,407,060	1,249,662
Debt securities issued	3,689,299	1,818,086	5,722,717	4,142,736
Interest on lease liabilities	719,619	810,108	898,675	915,328
Total interest expenses	118,783,744	125,507,699	132,580,099	141,316,697
Net interest income	60,933,782	61,206,519	74,430,959	78,609,351

8. Net fee and commission income

▶ **Accounting policy**

The Bank/Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income are recognised when the service is performed. Fees earned for the provision of services over a period of time are accrued over that period.

NOTES TO THE FINANCIAL STATEMENTS

8.1 Fee and commission income

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Loans	237,399	252,295	237,399	252,295
Cards	1,980,928	981,497	1,980,928	981,497
Trade and remittances	1,430,010	2,171,315	1,430,010	2,171,315
Investment banking	15,462	31,057	15,462	31,057
Deposits	2,122,325	3,015,568	2,122,325	3,015,568
Guarantees	612,768	704,577	612,768	704,577
Others	324,934	180,285	1,417,373	1,439,493
Total	6,723,826	7,336,594	7,816,265	8,595,802

8.2 Fee and commission expenses

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cards	299,557	249,349	299,557	249,349
Trade and remittances	1,322	2,449	1,322	2,449
Investment banking	1,867	3,921	1,867	3,921
Guarantees	1,985	4,597	1,985	4,597
Others	177,791	166,442	177,791	166,442
Total	482,522	426,758	482,522	426,758
Net fee and commission income	6,241,304	6,909,836	7,333,743	8,169,044

9. Net gain/(loss) from trading

▶ **Accounting policy**

Net gains/(losses) from trading comprises of foreign exchange gain(s) or losses arising from trading activities, realised gains or losses from investment in equities and fixed income securities classified as "Financial Assets – at fair value through profit or loss" and unrealised gains and losses due to changes in fair value of such instruments.

Gains and losses arising from changes in fair value of the said instruments are recognised in the Income Statement in the period in which they arise and derivative financial instruments are fair valued at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Net gain/(loss) from trading					
Gain from trading	9.1	3,729,148	1,130,893	3,925,288	1,088,335
Net fair value gain/(loss)	9.2	(1,140,027)	1,590,650	(1,140,027)	1,590,650
Total		2,589,121	2,721,543	2,785,261	2,678,985

9.1 Gain/(loss) from trading

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Foreign exchange	3,311,844	800,416	3,311,844	800,416
Government Securities (Treasury Bills and Treasury Bonds)	336,495	329,071	336,495	329,071
Equities	68,310	1,406	264,450	(41,152)
Debt securities	12,499	–	12,499	–
Total	3,729,148	1,130,893	3,925,288	1,088,335

9.2 Net fair value gain/(loss) on financial assets at fair value through profit or loss

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Derivatives	(909,653)	1,379,636	(909,653)	1,379,636
Government Securities				
Treasury Bills	(233,867)	216,794	(233,867)	216,794
Treasury Bonds	(3,785)	1,498	(3,785)	1,498
Debt securities	7,278	(7,278)	7,278	(7,278)
Total	(1,140,027)	1,590,650	(1,140,027)	1,590,650

NOTES TO THE FINANCIAL STATEMENTS

10. Other operating income**▶ Accounting policy****Profit/(loss) from sale of property, plant and equipment**

Profit/(loss) from sale of property, plant and equipment is recognised as and when the control of the property, plant and equipment has passed to the other party.

Dividend income from investment

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

Recovery of bad debts written off

Recovery of amounts once written off as bad debts are recognised, as and when such amount has received.

Net earned premium

Net earned premium refers to the gross written premium less premium ceded to reinsurance and net of any unearned premiums change in reserve unearned, which is more fully described under Note 5.23 to these Financial Statements.

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Profit from disposals of property, plant and equipment and right-of-use assets	39,389	51,174	54,687	81,487
Dividend from investment				
Quoted	3,866	47,156	20,906	67,137
Unquoted	152,118	154,333	152,118	154,333
Subsidiaries	732,467	1,448,057	-	-
Recovery of bad debts written off	30,815	91,321	30,815	91,321
Net earned premium	-	-	4,935,106	4,852,849
Others	992,580	1,164,589	1,092,213	1,770,769
Total	1,951,235	2,956,630	6,285,845	7,017,896

NOTES TO THE FINANCIAL STATEMENTS

11. Impairment charge

▶ Accounting policy

The Bank\ Group recognises impairment losses on financial assets by applying the three-stage approach to measure expected credit losses (ECL's) under Sri Lanka Accounting Standard – SLFRS 9 – “Financial Instruments” of which details are more fully given under Note 5.6 – Impairment of financial assets.

Further, the Bank/Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount of such asset through use or sale, as per Sri Lanka Accounting Standard – LKAS 36 – “Impairment of Assets”. Details relating hereto are more fully given under Note 5.13 to these Financial Statements

11.1 Bank

For the year ended 31 December		2020			
		Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000
Cash and cash equivalents	17.4	625	2,171	–	2,796
Placements with banks	19.2	29,450	–	–	29,450
Loans and advances to banks	22.2	60,561	–	–	60,561
Loans and advances to other customers	23.2	1,383,867	2,090,712	8,353,847	11,828,426
Debt instruments measured at amortised cost	24.2	272,621	–	–	272,621
Debt instruments at fair value through OCI	26.2	85	–	–	85
Contingent liabilities and commitments	43.3	(230,787)	(195,888)	(200,090)	(626,765)
Total impairment charge on financial assets		1,516,422	1,896,995	8,153,757	11,567,174

For the year ended 31 December		2019			
		Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000
Cash and cash equivalents	17.4	(48)	(3,602)	–	(3,650)
Placements with banks	19.2	1,010	–	–	1,010
Loans and advances to banks	22.2	(8,603)	–	–	(8,603)
Loans and advances to other customers	23.2	(74,224)	(310,163)	8,091,708	7,707,321
Debt instruments at fair value through OCI	26.2	(553)	289,445	–	288,892
Contingent liabilities and commitments	43.3	205,831	(25,018)	322,243	503,056
Total impairment charge on financial assets		123,414	(49,338)	8,413,951	8,488,026

NOTES TO THE FINANCIAL STATEMENTS

11.2 Group

For the year ended 31 December		2020			
		Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
	Note				
Cash and cash equivalents	17.4	625	2,171	–	2,796
Placements with banks	19.2	29,450	–	–	29,450
Loans and advances to banks	22.2	60,561	–	–	60,561
Loans and advances to other customers	23.2	1,616,105	3,071,419	12,336,774	17,024,298
Debt instruments measured at amortised cost	24.2	272,621	–	–	272,621
Debt instruments at fair value through OCI	26.2	85	–	–	85
Contingent liabilities and commitments	43.3	(230,787)	(195,888)	(200,090)	(626,765)
Total impairment charge on financial assets		1,748,660	2,877,702	12,136,684	16,763,046
Others					
Loss on disposal of collaterals including write-offs					678,796
Impairment charges on right-of-use assets	30.2				36,965
Impairment charges for goodwill	31.2				87,342
Total impairment charge					17,566,149

For the year ended 31 December		2019			
		Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
	Note				
Cash and cash equivalents	17.4	(48)	(3,602)	–	(3,650)
Placements with banks	19.2	1,010	–	–	1,010
Loans and advances to banks	22.2	(8,603)	–	–	(8,603)
Loans and advances to other customers	23.2	67,941	(229,402)	9,929,424	9,767,963
Debt instruments at fair value through OCI	26.2	(553)	289,445	–	288,892
Contingent liabilities and commitments	43.3	205,831	(25,018)	322,243	503,056
Total impairment charge on financial assets		265,578	31,423	10,251,667	10,548,668
Others					
Loss on disposal of collaterals including write-offs					1,095,468
Impairment on goodwill	31.2				33,383
Total impairment charge					11,677,519

NOTES TO THE FINANCIAL STATEMENTS

12. Personnel expenses**▶ Accounting policy**

Personnel expenses include staff salaries, bonus, contribution to defined contribution/benefit plans and other staff related expenses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus in the event the Bank/Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

For the year ended 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Salaries, bonus and related expenses		14,440,448	14,238,929	18,288,996	18,599,939
Contribution to defined benefit plan – pension funds	12.1	2,469,545	1,428,900	2,469,545	1,428,900
Contribution to defined benefit plan – gratuity	12.2	115,827	80,620	238,378	194,297
Amortisation of prepaid staff cost		822,340	1,529,951	822,340	1,529,951
Others		1,874,207	2,215,674	1,874,207	2,215,674
Total		19,722,367	19,494,074	23,693,466	23,968,761

12.1 Contribution to defined benefit plan – Pension funds**▶ Accounting policy**

The Bank operates two defined benefit pension plans, for the permanent staff members who have joined the Bank prior to 1 January 1996 and after 1 January 1996, which requires contributions to be made to a separately administered funds. The Bank recognises all actuarial gains and losses arising from these pension funds in the Other Comprehensive Income (OCI) and the expenses related to these funds recorded under personnel expenses in the Income Statement. Details of these defined benefit plans are given in "Employee retirement benefit plans" (Note 37.1 and Note 37.2).

For the year ended 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Contribution to defined benefit plan – pre 1996 pension trust fund	37.1.3	1,949,053	1,307,059	1,949,053	1,307,059
Contribution to defined benefit plan – post 1996 pension fund	37.2.3	520,492	121,841	520,492	121,841
		2,469,545	1,428,900	2,469,545	1,428,900

NOTES TO THE FINANCIAL STATEMENTS

12.2 Contribution to defined benefit plan – Gratuity (Note 37.3)

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Current service cost	60,631	35,759	121,907	92,598
Interest cost	55,196	44,861	116,471	101,699
Net expense	115,827	80,620	238,378	194,297

13. Other expenses

▶ Accounting policy

Other expenses have been recognised in the Income Statement as they are incurred in the period to which they relate. All expenditure incurred in running of the business and maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement in arriving at the profit of the year.

Depreciation and amortisation methods and rates are as stipulated in the Note 30 (property, plant and equipment and right-of-use assets).

For the year ended 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Directors' emoluments		7,493	8,393	14,785	26,706
Auditors' remunerations		7,911	10,869	19,610	23,424
Non-audit fees to auditors		–	–	4,585	8,961
Professional and legal expenses		181,669	186,298	206,265	214,620
Depreciation and amortisation	13.1	4,191,560	3,995,031	4,840,424	4,606,557
Office administration and establishment expenses		6,442,877	8,124,019	7,896,802	10,462,517
Benefits, claims, and underwriting expenditure		–	–	2,576,722	3,373,355
Deposit insurance premium		1,572,696	1,362,967	1,726,053	1,496,807
Others		2,943,529	3,548,872	2,973,519	3,447,195
Total		15,347,735	17,236,449	20,258,765	23,660,142

13.1 Depreciation and amortisation

For the year ended 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Depreciation of property, plant and equipment	30	1,936,308	1,861,089	2,214,118	2,093,006
Amortisation of right-of-use asset	30	2,058,629	1,963,276	2,421,043	2,327,555
Depreciation of investment property	29	1,707	1,707	1,707	749
Amortisation of intangible assets	31	194,916	168,959	203,556	185,247
Total		4,191,560	3,995,031	4,840,424	4,606,557

NOTES TO THE FINANCIAL STATEMENTS

14. Tax expenses

▶ **Accounting policy****Current taxation**

As per Sri Lanka Accounting Standard – LKAS 12 – “Income Taxes”, tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in Other Comprehensive Income (OCI), in which case it is recognised in OCI.

Accordingly, the provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 24 of 2017. Detailed disclosure of accounting policies are given in Note 5.18 to these Financial Statements

Deferred taxation

Deferred tax is provisioned for using the liability method on temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Detailed disclosure of accounting policies and estimate of deferred tax is more fully available in Note 5.18.2 to the Financial Statements

For the year ended 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Current year tax expense					
Income tax expense	14.1	7,756,646	6,356,372	9,561,494	7,164,370
Prior years' (over)/under provision		(513,436)	452,696	(513,436)	453,258
Deferred tax Charge/(credit)	14.2	(191,473)	(68,567)	(490,963)	1,856,455
Total tax expense		7,051,737	6,740,501	8,557,095	9,474,083
Effective tax rate (%)		33.2	34.3	34.7	36.9

14.1 Reconciliation of tax expenses

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Profit before tax for the year	21,226,680	19,666,184	24,647,581	25,652,251
Income tax for the period (accounting profit at applicable tax rate)	5,943,470	5,506,532	6,901,323	7,182,630
Add:				
Tax effect of expenses that are not deductible for tax purposes	7,439,507	5,847,582	11,214,209	12,339,783
(Less):				
Tax effect of expenses that are deductible for tax purposes	(5,626,331)	(4,997,742)	(8,554,038)	(12,358,043)
Income tax expense for the period	7,756,646	6,356,372	9,561,494	7,164,370

NOTES TO THE FINANCIAL STATEMENTS

14.2 The deferred tax charge/(credit) in the Income Statement comprise the following:

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Deferred tax assets	(1,333,117)	(827,465)	(1,961,432)	1,787,790
Deferred tax liabilities	1,141,644	758,898	1,470,469	68,665
Deferred tax (credit)/charge to Income Statement	(191,473)	(68,567)	(490,963)	1,856,455

14.3 The deferred tax charge/(credit) in other comprehensive income comprise the following:

For the year ended 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Retirement benefit	(3,402,368)	(2,814,470)	(3,374,264)	(2,819,408)
Revaluation of land and buildings	1,826,619	–	1,840,619	150,115
Deferred tax charge/(credit) to OCI	(1,575,749)	(2,814,470)	(1,533,645)	(2,669,293)
Net deferred tax for the year	(1,767,222)	(2,883,037)	(2,024,608)	(812,838)

14.4 Applicable rates concessions or holidays granted on income tax

	2020 %	2019 %
Domestic operation of the Bank	28	28
On-shore banking operations of the Off-Shore Banking Unit	28	28
Off-shore banking operations of the Off-Shore Banking Unit	28	28
People's Leasing and Finance PLC	28	28
People's Travels (Pvt) Ltd.	14	14
People's Merchant Finance PLC	28	28
People's Micro Commerce Limited	28	28
People's Fleet Management Limited	28	28

The tax liabilities of the Group are computed at the above rates except for the following companies which enjoy exemptions and concessions.

People's Leasing Havelock Properties Limited

Pursuant to the agreement dated 16 December 2010 entered into by People's Leasing Havelock Properties Limited with the Board of Investment under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition, payment and recovery of income tax shall not apply for a period of five years reckoned from the year in which the Company makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations whichever is earliest. The Company is eligible for a 10% concessionary tax rate for a period of two years immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate after the expiration of the 10% concessionary tax period.

NOTES TO THE FINANCIAL STATEMENTS

15. Earnings per share**15.1 Basic earnings per share**

As per Sri Lanka Accounting Standard – LKAS 33 “Earnings per Share”, the calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding during the year.

For the year ended 31 December	Bank		Group	
	2020	2019	2020	2019
Net profit attributable to ordinary equity holders (LKR '000)	14,174,943	12,925,683	15,229,858	14,984,837
Weighted-average number of ordinary shares in issue ('000)	1,000	1,000	1,000	1,000
Basic earnings per share (LKR)	14,175	12,926	15,230	14,985

15.2 Diluted earnings per share

As per Sri Lanka Accounting Standard – LKAS 33 “Earnings per Share”, the calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding during the year, after adjustment for the effects of all dilutive potential ordinary shares.

For the year ended 31 December	Bank		Group	
	2020	2019	2020	2019
Net profit attributable to ordinary equity holders (LKR '000)	14,174,943	12,925,683	15,229,858	14,984,837
Weighted-average number of ordinary shares in issue ('000)	1,000	1,000	1,000	1,000
Number of ordinary shares in capital pending allotment ('000)	243,040	243,040	243,040	243,040
Total number of shares in issue and pending allotment ('000)	244,040	244,040	244,040	244,040
Diluted earnings per share (LKR)	58	53	62	61

16. Measurement of financial instruments

The following table analyses the carrying amounts of the financial instruments by category as defined under Sri Lanka Accounting Standard – SLFRS 9 – “Financial Instruments” under the headings of the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS

16.1 Bank – 31 December 2020

	2020			Total
	FVTPL ¹	FVOCI ²	AC ³	
Assets				
Cash and cash equivalents	-	-	71,461,242	71,461,242
Balances with central banks	-	-	14,196,565	14,196,565
Placements with banks	-	-	10,304,422	10,304,422
Derivative financial instruments	97,645	-	-	97,645
Financial assets – at fair value through profit or loss	46,425,027	-	-	46,425,027
Financial assets – at amortised cost				
Loans and advances to banks	-	-	23,610,101	23,610,101
Loans and advances to other customers	-	-	1,635,579,343	1,635,579,343
Debt instruments measured at amortised cost	-	-	357,107,701	357,107,701
Financial assets – at fair value through OCI				
Equity instruments at fair value through OCI	-	1,937,778	-	1,937,778
Debt instruments at fair value through OCI	-	2,632,231	-	2,632,231
Total financial assets	46,522,672	4,570,009	2,112,259,374	2,163,352,055
Liabilities				
Due to banks	-	-	164,489,623	164,489,623
Derivative financial instruments	976,486	-	-	976,486
Due to other customers	-	-	1,835,099,456	1,835,099,456
Other borrowings	-	-	36,362,434	36,362,434
Subordinated term debts	-	-	43,557,696	43,557,696
Total financial liabilities	976,486	-	2,079,509,209	2,080,485,695

1 Fair Value through Profit or Loss 2 Fair Value through Other Comprehensive Income 3 Amortised Cost

NOTES TO THE FINANCIAL STATEMENTS

Bank – 31 December 2019

	2019			
	FVTPL ¹	FVOCI ²	AC ³	Total
Assets				
Cash and cash equivalents	–	–	50,703,158	50,703,158
Balances with central banks	–	–	38,858,470	38,858,470
Placements with banks	–	–	9,689,132	9,689,132
Derivative financial instruments	90,560	–	–	90,560
Financial assets – at fair value through profit or loss	79,514,568	–	–	79,514,568
Financial assets – at amortised cost				
Loans and advances to banks	–	–	29,771,919	29,771,919
Loans and advances to other customers	–	–	1,310,150,137	1,310,150,137
Debt instruments measured at amortised cost			280,935,892	280,935,892
Financial assets – at fair value through OCI				
Equity instruments at fair value through OCI		1,997,896		1,997,896
Debt instruments at fair value through OCI		2,573,067		2,573,067
Total financial assets	79,605,128	4,570,963	1,720,108,708	1,804,284,799
	FVTPL ¹		AC ³	Total
Liabilities				
Due to banks	–	–	207,484,446	207,484,446
Derivative financial instruments	59,748	–	–	59,748
Due to other customers	–	–	1,491,385,937	1,491,385,937
Other borrowings	–	–	17,324,960	17,324,960
Subordinated term debts	–	–	22,714,490	22,714,490
Total financial liabilities	59,748	–	1,738,909,833	1,738,969,581

1 Fair Value through Profit or Loss

2 Fair Value through Other Comprehensive Income

3 Amortised Cost

NOTES TO THE FINANCIAL STATEMENTS

16.2 Group – 31 December 2020

	2020			
	FVTPL ¹	FVOCI ²	AC ³	Total
Assets				
Cash and cash equivalents	-	-	72,899,208	72,899,208
Balances with central banks	-	-	14,196,565	14,196,565
Placements with banks	-	-	13,910,824	13,910,824
Derivative financial instruments	97,645	-	-	97,645
Financial assets – at fair value through profit or loss	52,728,589	-	-	52,728,589
Financial assets – at amortised cost				
Loans and advances to banks	-	-	23,622,700	23,622,700
Loans and advances to other customers	-	-	1,776,231,315	1,776,231,315
Debt instruments measured at amortised cost	-	-	365,900,452	365,900,452
Financial assets – at fair value through OCI				
Equity instruments at fair value through OCI	-	1,778,585	-	1,778,585
Debt instruments at fair value through OCI	-	2,899,609	-	2,899,609
Total financial assets	52,826,234	4,678,194	2,266,761,064	2,324,265,492
	FVTPL ¹		AC ³	Total
Liabilities				
Due to banks	-	-	172,439,795	172,439,795
Derivative financial instruments	976,486	-	-	976,486
Due to other customers	-	-	1,935,194,040	1,935,194,040
Other borrowings	-	-	36,362,434	36,362,434
Subordinated term debts	-	-	56,868,035	56,868,035
Total financial liabilities	976,486	-	2,200,864,304	2,201,840,790

¹ Fair Value through Profit or Loss ² Fair Value through Other Comprehensive Income ³ Amortised Cost

NOTES TO THE FINANCIAL STATEMENTS

Group – 31 December 2019

	2019			
	FVTPL ¹	FVOCI ²	AC ³	Total
Assets				
Cash and cash equivalents	–	–	51,594,638	51,594,638
Balances with central banks	–	–	38,858,470	38,858,470
Placements with banks	–	–	13,395,360	13,395,360
Derivative financial instruments	90,560	–	–	90,560
Financial assets – at fair value through profit or loss	80,405,966	–	–	80,405,966
Financial assets – at amortised cost	–	–	–	–
Loans and advances to banks	–	–	29,771,919	29,771,919
Loans and advances to other customers	–	–	1,460,497,766	1,460,497,766
Debt instruments measured at amortised cost	–	–	290,739,848	290,739,848
Financial assets at fair value through OCI	–	–	–	–
Equity instruments at fair value through OCI	–	1,772,838	–	1,772,838
Debt instruments at fair value through OCI	–	2,573,067	–	2,573,067
Total financial assets	80,496,526	4,345,905	1,884,858,001	1,969,700,432
Liabilities				
Due to banks	–	–	219,434,075	219,434,075
Derivative financial instruments	59,748	–	–	59,748
Due to other customers	–	–	1,588,903,098	1,588,903,098
Other borrowings	–	–	16,289,502	16,289,502
Subordinated term debts	–	–	40,513,091	40,513,091
Total financial liabilities	59,748	–	1,865,139,766	1,865,199,514

¹ Fair value through profit or loss² Fair value through other comprehensive income³ Amortised cost

NOTES TO THE FINANCIAL STATEMENTS

17. Cash and cash equivalents

▶ Accounting policy

Cash and cash equivalents include cash in hand, balances with banks, money at call and at short notice and Standing Lending Facility of the Central Bank of Sri Lanka. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

17.1 Cash

For the year ended 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cash in hand		45,786,256	48,636,493	46,636,946	49,416,682

17.2 Cash equivalents

Cash at banks		12,077,002	1,667,496	12,664,278	1,778,787
Money at call and short notice		6,000,748	–	6,000,748	–
CBSL Standing Lending Facility		7,600,940	400,077	7,600,940	400,077
Gross cash equivalents		25,678,690	2,067,573	26,265,966	2,178,864
Less: Allowance for expected credit losses	17.4	(3,704)	(908)	(3,704)	(908)
Net cash equivalents		25,674,986	2,066,665	26,262,262	2,177,956
Total cash and cash equivalents		71,461,242	50,703,158	72,899,208	51,594,638

17.3 Analysis of cash equivalents based on exposure to credit risk

Bank

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash at banks	11,970,198	106,804	–	12,077,002
Money at call and short notice	6,000,748	–	–	6,000,748
CBSL Standing Lending Facility	7,600,940	–	–	7,600,940
Total	25,571,886	106,804	–	25,678,690

As at 31 December	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash at banks	1,634,239	33,257	–	1,667,496
CBSL Standing Lending Facility	400,077	–	–	400,077
Total	2,034,316	33,257	–	2,067,573

NOTES TO THE FINANCIAL STATEMENTS

Group

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash at banks	12,557,474	106,804	–	12,664,278
Money at call and short notice	6,000,748	–	–	6,000,748
CBSL Standing Lending Facility	7,600,940	–	–	7,600,940
Total	26,159,162	106,804	–	26,265,966

As at 31 December	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash at banks	1,745,530	33,257	–	1,778,787
CBSL Standing Lending Facility	400,077	–	–	400,077
Total	2,145,607	33,257	–	2,178,864

17.4 Allowance for expected credit losses – Cash equivalents

Bank

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2020	263	645	–	908
Gross charge/(reversal) for the year	625	2,171	–	2,796
ECL allowance as at 31 December 2020	888	2,816	–	3,704

	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2019	311	4,247	–	4,558
Gross charge/(reversal) for the year	(48)	(3,602)	–	(3,650)
ECL allowance as at 31 December 2019	263	645	–	908

NOTES TO THE FINANCIAL STATEMENTS

Group

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2020	263	645	–	908
Gross charge/(reversal) for the year	625	2,171	–	2,796
ECL allowance as at 31 December 2020	888	2,816	–	3,704

	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2019	311	4,247	–	4,558
Gross charge/(reversal) for the year	(48)	(3,602)	–	(3,650)
ECL allowance as at 31 December 2019	263	645	–	908

18. Balances with Central Bank of Sri Lanka

▶ **Accounting policy**

The balance with the Central Bank of Sri Lanka in the Statutory Cash Reserve is 2.0% (5.0% in 2019) of rupee denominated deposit liabilities. This is a non-interest bearing-balance. A similar reserve is not required in respect of foreign currency denominated deposits liabilities in the Domestic Banking Unit and deposit liabilities in the Off-Shore Banking Unit.

This balances is carried at amortised cost in the Statement of Financial Position.

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Statutory balances with Central Bank of Sri Lanka (Stage 1)	14,196,565	38,858,470	14,196,565	38,858,470
	14,196,565	38,858,470	14,196,565	38,858,470

19. Placements with banks

▶ **Accounting policy**

Placements with banks include Money Market placements and fixed deposits that are subject to an insignificant risk of changes in the fair value and are used by the Bank/Group in managing its short-term commitments. These balances are carried at amortised cost in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Placements		10,335,455	9,690,715	10,335,455	9,690,715
Fixed deposits		-	-	3,606,402	3,706,228
Gross placements with Banks		10,335,455	9,690,715	13,941,857	13,396,943
Less: Allowance for expected credit losses	19.2	(31,033)	(1,583)	(31,033)	(1,583)
Net placements with Banks		10,304,422	9,689,132	13,910,824	13,395,360

19.1 Analysis of placements with banks based on exposure to credit risk

Bank

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Placements	10,335,455	-	-	10,335,455
Total	10,335,455	-	-	10,335,455

	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Placements	9,690,715	-	-	9,690,715
Total	9,690,715	-	-	9,690,715

Group

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Placements	10,335,455	-	-	10,335,455
Fixed deposits	3,606,402	-	-	3,606,402
Total	13,941,857	-	-	13,941,857

	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Placements	9,690,715	-	-	9,690,715
Fixed deposits	3,706,228	-	-	3,706,228
Total	13,396,943	-	-	13,396,943

NOTES TO THE FINANCIAL STATEMENTS

19.2 Allowance for expected credit losses – Placements with banks

Bank and Group

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2020	1,583	–	–	1,583
Gross charge/(reversal) for the year	29,450	–	–	29,450
ECL allowance as at 31 December 2020	31,033	–	–	31,033

	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2019	573	–	–	573
Gross charge/(reversal) for the year	1,010	–	–	1,010
ECL allowance as at 31 December 2019	1,583	–	–	1,583

20. Derivative financial instruments

▶ Accounting policy

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable, and typically comprises instruments such as swaps, forward rate agreements, futures, and options.

All derivatives are recognised in the Statement of Financial Position at fair value and are classified as fair value through profit or loss except where they have been designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is remeasured at fair value throughout the life of the contract.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The table below depicts the fair values of derivative financial instruments of the Bank/Group, recorded as assets or liabilities, together with their notional amounts.

20.1 Foreign currency derivatives – Assets

	Bank				Group			
	2020		2019		2020		2019	
	Assets LKR '000	Notional amount LKR '000	Assets LKR '000	Notional amount LKR '000	Assets LKR '000	Notional amount LKR '000	Assets LKR '000	Notional amount LKR '000
Currency swaps								
Sales	57,471	12,054,900	47,446	4,522,349	57,471	12,054,900	47,446	4,522,349
Purchases	34,396	10,410,093	41,310	6,183,167	34,396	10,410,093	41,310	6,183,167
Forward foreign exchange contracts								
Sales	1,174	1,639,285	1,704	938,577	1,174	1,639,285	1,704	938,577
Purchases	4,604	372,852	100	23,287	4,604	372,852	100	23,287
Total	97,645	24,477,130	90,560	11,667,380	97,645	24,477,130	90,560	11,667,380

NOTES TO THE FINANCIAL STATEMENTS

20.2 Foreign currency derivatives – Liabilities

	Bank				Group			
	2020		2019		2020		2019	
	Liability LKR '000	Notional amount LKR '000	Liability LKR '000	Notional amount LKR '000	Liability LKR '000	Notional amount LKR '000	Liability LKR '000	Notional amount LKR '000
Currency swaps								
Sales	934,215	86,078,566	20,652	6,140,423	934,215	86,078,566	20,652	6,140,423
Purchases	11,878	4,610,694	29,056	3,099,277	11,878	4,610,694	29,056	3,099,277
Forward foreign exchange contracts								
Sales	28,371	3,643,693	4,085	1,355,952	28,371	3,643,693	4,085	1,355,952
Purchases	2,022	265,105	5,955	1,679,848	2,022	265,105	5,955	1,679,848
Total	976,486	94,598,058	59,748	12,275,500	976,486	94,598,058	59,748	12,275,500

21. Financial Assets – At fair value through profit or loss

► Accounting policy

Financial assets – At fair value through profit or loss include debt securities and equities that have been acquired principally for the purpose of trading and are measured at fair value. Details are more fully given in Note 5.5.3. to these Financial Statements.

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lanka Government Securities	21.1	46,162,420	79,323,896	46,162,420	79,323,896
Equity securities – Quoted	21.2	226,119	158,831	249,835	192,962
Unit Trusts	21.3	–	–	6,279,846	214,019
Equity securities – Unquoted		–	–	–	643,248
Debt securities		36,488	31,841	36,488	31,841
Total		46,425,027	79,514,568	52,728,589	80,405,966

21.1 Sri Lanka Government Securities

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Treasury Bills	44,998,788	79,198,381	44,998,788	79,198,381
Treasury Bonds	1,163,632	125,515	1,163,632	125,515
Total	46,162,420	79,323,896	46,162,420	79,323,896

NOTES TO THE FINANCIAL STATEMENTS

21.2 Equity securities

21.2.1 Equity securities – Bank

	Number of shares	Cost 2020 LKR '000	Market value as at 31 December 2020 LKR '000	Number of shares	Cost 2019 LKR '000	Market value as at 31 December 2019 LKR '000
Land and property						
CT Land Development PLC	-	-	-	555	24	17
Capital goods						
ACL Cables PLC	331,610	15,798	25,401	-	-	-
Access Engineering PLC	68,940	1,655	1,696	-	-	-
Telecommunication services						
Dialog Axiata PLC	2,000,000	21,750	24,800	2,172,813	21,455	26,726
Diversified holdings						
John Keells Holdings PLC	18,137	2,377	2,713	18,137	2,377	3,040
Hemas Holdings PLC	755,504	56,093	75,475	457,336	37,819	36,587
Richard Pieris and Company PLC	-	-	-	948,048	9,480	11,187
Aitken Spence PLC	330,000	15,160	19,074	200,000	9,510	9,300
Power and energy						
LVL Energy Fund PLC	1,305,979	12,608	13,321	2,305,979	22,608	17,295
Manufacturing						
Pelawatta Sugar Industries PLC	-	-	-	58,100	1,829	-
Alumex PLC	-	-	-	1,498,732	29,969	22,181
Teejay Lanka PLC	300,000	8,960	11,400	-	-	-
Motors						
United Motors Lanka PLC	-	-	-	3,426	305	216
Health care						
Asiri Hospital Holdings PLC	1,514,157	30,303	52,239	1,614,157	32,341	32,282
Total value of the quoted equity securities		164,703	226,119		167,717	158,831

NOTES TO THE FINANCIAL STATEMENTS

21.2.2 Equity securities – Group

	Number of shares	Cost 2020 LKR '000	Market value as at 31 December 2020 LKR '000	Number of shares	Cost 2019 LKR '000	Market value as at 31 December 2019 LKR '000
Land and property						
CT land Development PLC	-	-	-	555	24	17
Capital goods						
ACL Cables PLC	331,610	15,798	25,401	-	-	-
Access Engineering PLC	68,940	1,655	1,696	-	-	-
Manufacturing						
Alumex PLC	-	-	-	1,498,732	29,969	22,181
Teejay Lanka PLC	300,000	8,960	11,400	-	-	-
Pelawatta Sugar Industries PLC	-	-	-	58,100	1,829	-
Telecommunication services						
Dialog Axiata PLC	2,000,000	21,750	24,800	2,172,813	21,455	26,726
Diversified holdings						
John Keells Holdings PLC	18,137	2,377	2,713	18,137	2,377	3,040
Hemas Holdings PLC	755,504	56,093	75,475	457,336	37,819	36,587
Richard Pieris and Company PLC	-	-	-	948,048	9,480	11,187
Aitken Spence PLC	330,000	15,160	19,074	200,000	9,510	9,300
Banks, finance and insurance						
Commercial Bank of Ceylon PLC – Non-voting	-	-	-	111,984	9,653	9,295
Seylan Bank PLC – Voting	-	-	-	107,174	7,449	5,627
Seylan Bank PLC – Non-voting	-	-	-	138,545	4,403	4,683
Hatton National Bank PLC	75,556	9,627	9,557	-	-	-
Commercial Bank of Ceylon PLC	175,000	14,334	14,158	95,000	9,833	9,025
Food, beverage and tobacco						
Ceylon Tobacco Company PLC	-	-	-	5,000	5,400	5,503
Health care						
Asiri Hospital Holdings PLC	1,514,157	30,303	52,239	1,614,157	32,341	32,282
Power and energy						
LVL Energy Fund PLC	1,305,979	12,608	13,321	2,305,979	22,606	17,295
Motors						
United Motors Lanka PLC	-	-	-	3,426	305	216
Total value of quoted equity securities		188,664	249,835		204,453	192,962

NOTES TO THE FINANCIAL STATEMENTS

21.3 Unit trust

	Number of shares	Cost 2020 LKR '000	Market value as at 31 December 2020 LKR '000	Number of shares	Cost 2019 LKR '000	Market value as at 31 December 2019 LKR '000
NDB Wealth Money Market Plus Fund	122,700,474	2,826,228	2,877,436	-	-	-
Guardian Money Market Fund	17,489,404	346,248	353,530	11,301,396	210,234	214,019
Softlogic Money Market Fund	490,240	50,000	50,831	-	-	-
Capital Alliance Investment Grade Fund	101,244,622	1,980,197	1,998,559	-	-	-
JB Vantage Money Market Fund	36,429,614	990,074	999,490	-	-	-
Total		6,192,747	6,279,846		210,234	214,019

22. Loans and advances to banks

▶ Accounting policy

Loans and advances to banks include Sri Lanka Development bonds, Restructuring Bonds, and securities purchased under resale agreements.

The Group measures loans and advances to banks at amortised cost since the said instruments qualify both contractual cash flow assessment and business model assessment which has been described in Note 5.5.1 to these Financial Statements.

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lanka Development Bonds		4,771,213	3,703,287	4,771,213	3,703,287
Restructuring Bond	22.3	7,689,150	7,689,150	7,689,150	7,689,150
Securities purchased under resale agreements		11,251,412	18,420,595	11,264,011	18,420,595
Gross loans and advances to Banks		23,711,775	29,813,032	23,724,374	29,813,032
Less: Allowance for expected credit losses	22.2	(101,674)	(41,113)	(101,674)	(41,113)
Net loans and advances to Banks		23,610,101	29,771,919	23,622,700	29,771,919

NOTES TO THE FINANCIAL STATEMENTS

22.1 Analysis of loans and advances to banks based on exposure to credit risk

Bank

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Development Bonds	4,771,213	-	-	4,771,213
Restructuring Bond	7,689,150	-	-	7,689,150
Securities purchased under resale agreements	11,251,412	-	-	11,251,412
Total	23,711,775	-	-	23,711,775

As at 31 December	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Development Bonds	3,703,287	-	-	3,703,287
Restructuring Bond	7,689,150	-	-	7,689,150
Securities purchased under resale agreements	18,420,595	-	-	18,420,595
Total	29,813,032	-	-	29,813,032

Group

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Development Bonds	4,771,213	-	-	4,771,213
Restructuring Bond	7,689,150	-	-	7,689,150
Securities purchased under resale agreements	11,264,011	-	-	11,264,011
Total	23,724,374	-	-	23,724,374

As at 31 December	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Development Bonds	3,703,287	-	-	3,703,287
Restructuring Bond	7,689,150	-	-	7,689,150
Securities purchased under resale agreements	18,420,595	-	-	18,420,595
Total	29,813,032	-	-	29,813,032

NOTES TO THE FINANCIAL STATEMENTS

22.2 Allowance for expected credit losses/Impairment losses – Loans and advances to banks

Bank and Group

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2020	41,113	–	–	41,113
Gross charge/(reversal) for the year	60,561	–	–	60,561
ECL allowance as at 31 December 2020	101,674	–	–	101,674

As at 31 December	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2019	49,716	–	–	49,716
Gross charge/(reversal) for the year	(8,603)	–	–	(8,603)
ECL allowance as at 31 December 2019	41,113	–	–	41,113

22.3 Government of Sri Lanka Restructuring Bonds

22.3.a In April 1993, The Bank received restructuring bonds amounting to LKR 10,541 Mn., from the Government of Sri Lanka(GOSL) for the following purposes:

	LKR Mn.	
(i)	1,152.0	To achieve the capital adequacy requirement in accordance with CBSL Guidelines
(ii)	1,700.5	To write-off loans granted to Sri Lanka State Plantations Corporation and Paddy Marketing Board for LKR 1,467 Mn. and LKR 233.5 Mn. respectively
(iii)	4,355.0	To finance pension liabilities
(iv)	3,231.0	To provide for loan loss provision
(v)	102.5	For loans to be transferred to Special Recovery Unit (RACA)
	10,541.0	

22.3.b The above value of Bonds granted by GOSL effectively relates to accounting entries that were booked to clear carrying values of advances granted under State recommendation, which were deemed as irrecoverable.

22.3.c The agreement underlying the granting of these Bonds, stipulates the following:

- A tenor of 30 years, where the Bonds could be redeemed through the recovery of any of the specific loan losses for which the Bonds were issued.

As at statement of financial position date, no recoveries have been made of those specific loan losses.

- As per the initial agreement an interest rate of 12% p.a. would apply, with half yearly payment of interest.
- A value of 25% of income derived from (b) above would be refunded to the GOSL annually.

NOTES TO THE FINANCIAL STATEMENTS

22.3.d As indicated in 22.3.a., a sum of LKR 4,355 Mn. of this tranche of Bonds was assigned to the Pension Fund (LKR 3,218 Mn.) and to the W & OP Fund (Rs. 1,137 Mn.).

Accordingly, the carrying balance of Bonds reflected on the Statement of Financial Position does not include the value assigned to the Pension Fund, which is managed as an independent Trust Fund.

22.3.e The financial implications of these Bonds in year 2020 are as follows:

- A value of LKR 7,689 Mn. is reflected on the Statement of Financial Position as loans and advances to Banks.
- A value of LKR 879 Mn. is received during the year as income and is reflected under Interest Income.

23. Loans and advances to other customers

Accounting policy

Loans and advances to other customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- The Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the Bank, upon initial recognition, designates as fair value through other comprehensive income (OCI)
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration

The Bank/Group measures loans and advances to other customers at amortised cost since both of the following conditions are met:

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

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Gross loans and advances to other customers	23.1	1,723,465,943	1,386,480,514	1,876,212,559	1,543,726,915
Stage 1		1,451,654,411	1,223,763,735	1,524,043,835	1,329,338,443
Stage 2		137,901,961	25,614,133	173,617,030	57,602,462
Stage 3		133,909,571	137,102,646	178,551,694	156,786,010
Less:					
Allowance for expected credit losses	23.2	(87,886,600)	(76,330,377)	(99,981,244)	(83,229,149)
Stage 1		(6,419,888)	(5,036,021)	(7,309,834)	(5,693,729)
Stage 2		(3,533,121)	(1,442,409)	(5,250,002)	(2,178,583)
Stage 3		(77,933,591)	(69,851,947)	(87,421,408)	(75,356,837)
Net loans and advances		1,635,579,343	1,310,150,137	1,776,231,315	1,460,497,766

NOTES TO THE FINANCIAL STATEMENTS

23.1 Analysis of gross loans and advances

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
By product					
Bills of exchange		1,001,619	1,977,123	1,001,619	1,977,123
Overdrafts		258,281,894	145,448,601	257,950,664	144,724,972
Trade finance		250,894,973	234,096,610	250,894,973	234,096,610
Credit cards		3,067,432	3,336,587	3,067,432	3,336,587
Pawning		174,814,192	162,582,929	174,814,192	162,582,929
Staff loans	23.1.1	23,958,937	19,706,237	24,785,370	20,495,711
Short-term loans		259,527,250	202,760,034	259,527,250	202,760,034
Long-term loans		751,538,010	616,216,358	813,173,316	677,166,341
Lease rental receivable		–	–	81,891,112	88,287,070
Others		381,636	356,035	9,106,631	8,299,538
Gross total		1,723,465,943	1,386,480,514	1,876,212,559	1,543,726,915
By currency					
Sri Lankan rupee		1,293,932,661	1,033,543,858	1,443,062,842	1,188,136,545
United States dollar		425,100,996	348,588,956	425,100,996	348,588,956
Great Britain pound		45,820	43,249	45,820	43,249
Others		4,386,466	4,304,451	8,002,901	6,958,165
Gross total		1,723,465,943	1,386,480,514	1,876,212,559	1,543,726,915
By industry					
Agriculture, forestry and fishing		136,609,009	129,152,822	166,308,552	158,236,727
Manufacturing		33,844,343	33,875,134	44,604,569	43,295,098
Tourism		36,794,901	33,078,339	40,690,756	37,306,649
Transport and storage		63,488,966	59,020,700	97,382,327	93,050,379
Construction		386,330,264	306,051,041	396,691,973	319,150,921
Infrastructure development		375,810,596	302,303,448	375,810,596	302,303,448
Wholesale and retail trade		126,296,983	102,534,685	143,257,606	120,993,300
Professional, scientific, and technical activities		45,247,609	30,031,324	54,042,527	36,857,354
Financial services		22,648,245	13,695,663	31,887,446	22,519,287
Consumption		129,358,898	123,253,909	137,207,839	131,974,611
Others		367,036,129	253,483,449	388,328,368	278,038,141
Gross total		1,723,465,943	1,386,480,514	1,876,212,559	1,543,726,915

NOTES TO THE FINANCIAL STATEMENTS

23.1.1 Staff loans (net)

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Staff loans	34,389,293	31,348,782	35,215,726	32,138,256
(Less): Allowance for day one difference	(10,430,356)	(11,642,545)	(10,430,356)	(11,642,545)
Net staff loans	23,958,937	19,706,237	24,785,370	20,495,711

23.2 Movement in allowance for expected credit loss [ECL] based on exposure to credit risk

Bank

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	5,036,021	1,442,409	69,851,947	76,330,377
Net charge/(reversal) for the year	1,383,867	2,090,712	8,353,847	11,828,426
Amounts written-off	-	-	(412,843)	(412,843)
Exchange rate variance on foreign currency impairment	-	-	140,640	140,640
Closing balance as at 31 December	6,419,888	3,533,121	77,933,591	87,886,600

	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	5,110,245	1,752,572	61,889,976	68,752,793
Net charge/(reversal) for the year	(74,224)	(310,163)	8,091,708	7,707,321
Amounts written off	-	-	(95,638)	(95,638)
Exchange rate variance on foreign currency impairment	-	-	(34,099)	(34,099)
Closing balance as at 31 December	5,036,021	1,442,409	69,851,947	76,330,377

NOTES TO THE FINANCIAL STATEMENTS

Group

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	5,693,729	2,178,583	75,356,837	83,229,149
Net charge/(reversal) for the year	1,616,105	3,071,419	12,336,774	17,024,298
Amounts written off	-	-	(412,843)	(412,843)
Exchange rate variance on foreign currency impairment	-	-	140,640	140,640
Closing balance as at 31 December	7,309,834	5,250,002	87,421,408	99,981,244

	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	5,649,333	2,486,192	65,857,094	73,992,619
Net charge/(reversal) for the year	67,941	(229,402)	9,929,424	9,767,963
Amounts written-off	-	-	(95,638)	(95,638)
Exchange rate variance on foreign currency Impairment	-	-	(34,099)	(34,099)
Deemed disposal of subsidiary during the year	(23,545)	(78,207)	(299,944)	(401,696)
Closing balance as at 31 December	5,693,729	2,178,583	75,356,837	83,229,149

24. Debt Instruments measured at amortised cost

▶ Accounting policy

Investments in debt instruments are measured at amortised cost where they have:

- Contractual terms that give rise to cash flows on pre-specified dates, that represent solely payments of principal and/or interest on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by holding such assets to collect contractual cash flows.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lanka Government Securities					
Treasury Bills		16,687,743	169,781,087	22,935,324	179,585,043
Treasury Bonds		327,354,936	111,154,805	329,077,893	111,154,805
International Sovereign Bonds		13,337,643	–	13,337,643	–
Investments in preference shares		–	–	669,886	–
Investments in commercial papers		–	–	152,327	–
Total debt instruments measured at amortised cost		357,380,322	280,935,892	366,173,073	290,739,848
Less: Allowance for expected credit losses	24.2	(272,621)	–	(272,621)	–
Net debt instruments measured at amortised cost		357,107,701	280,935,892	365,900,452	290,739,848

24.1 Analysis of debt instruments measured at amortised cost based on exposure to credit risk

Bank

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities				
Treasury Bills	16,687,743	–	–	16,687,743
Treasury Bonds	327,354,936	–	–	327,354,936
International Sovereign Bonds	13,337,643	–	–	13,337,643
Total	357,380,322	–	–	357,380,322

As at 31 December	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities				
Treasury Bills	169,781,087	–	–	169,781,087
Treasury Bonds	111,154,805	–	–	111,154,805
Total	280,935,892	–	–	280,935,892

NOTES TO THE FINANCIAL STATEMENTS

Group

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities				
Treasury Bills	22,935,324	–	–	22,935,324
Treasury Bonds	329,077,893	–	–	329,077,893
International Sovereign Bonds	13,337,643	–	–	13,337,643
Investments in preference shares	669,886	–	–	669,886
Investments in commercial papers	152,327	–	–	152,327
Total	366,173,073	–	–	366,173,073

As at 31 December	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities				
Treasury Bills	179,585,043	–	–	179,585,043
Treasury Bonds	111,154,805	–	–	111,154,805
Total	290,739,848	–	–	290,739,848

24.2 Allowance for expected credit losses – Debt instruments measured at amortised cost

Bank and Group

	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 01 January 2020	–	–	–	–
Gross charge/(reversal) for the year	272,621	–	–	272,621
ECL allowance as at 31 December 2020	272,621	–	–	272,621

NOTES TO THE FINANCIAL STATEMENTS

25. Equity instruments at fair value through OCI

▶ Accounting policy

Investment in equity instruments that are neither held for trading nor contingent consideration recognised by the Group in a business combination to which Sri Lanka Accounting Standard – SLFRS 3 – “Business Combinations” applies, are measured at fair value through other comprehensive income. Detailed accounting policies are more fully set out in Note 5.5.2 to these Financial Statements.

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Equity securities – Unquoted	25.1	815,900	852,646	815,910	852,656
Equity securities – Quoted	25.2	1,121,878	1,145,250	962,675	920,182
Total		1,937,778	1,997,896	1,778,585	1,772,838

25.1 Equity securities – Unquoted

25.1.1 Bank

Name	Number of shares 31.12.2020	Fair value as at 31.12.2020 LKR '000	Cost as at 31.12.2020 LKR '000	Number of shares 31.12.2019	Fair value as at 31.12.2019 LKR '000	Cost as at 31.12.2019 LKR '000
Credit Information Bureau of Sri Lanka	47,400	–	50,715	47,400	–	50,715
Society for Worldwide Inter Bank Financial Telecommunication	14	1,168	1,168	14	1,168	1,168
Regional Development Bank	16,448,448	612,476	162,300	16,448,448	674,396	162,300
Lanka Financial Services Bureau	500,000	–	5,000	225,000	–	2,250
Fitch Rating Lanka Ltd.	62,500	625	625	62,500	625	625
Lanka Clear (Pvt) Ltd.	2,126,213	25,620	25,620	2,100,000	21,000	21,000
People’s Merchant Finance PLC – Preference Shares	1,000,000	10,000	10,000	1,000,000	10,000	10,000
National Equity Fund	5,112,735	166,011	175,469	5,112,735	145,457	175,469
Total		815,900	430,897		852,646	423,527

NOTES TO THE FINANCIAL STATEMENTS

25.1.2 Group

Name	Number of shares 31.12.2020	Fair value as at 31.12.2020 LKR '000	Cost as at 31.12.2020 LKR '000	Number of shares 31.12.2019	Fair value as at 31.12.2019 LKR '000	Cost as at 31.12.2019 LKR '000
Credit Information Bureau of Sri Lanka	47,500	10	50,725	47,500	10	50,725
Society for Worldwide Inter Bank Financial Telecommunication	14	1,168	1,168	14	1,168	1,168
Regional Development Bank	16,448,448	612,476	162,300	16,448,448	674,396	162,300
Lanka Financial Services Bureau	500,000	–	5,000	225,000	–	2,250
Fitch Rating Lanka Ltd.	62,500	625	625	62,500	625	625
Lanka Clear (Pvt) Ltd.	2,126,213	25,620	25,620	2,100,000	21,000	21,000
People's Merchant Finance PLC – Preference Shares	1,000,000	10,000	10,000	1,000,000	10,000	10,000
National Equity Fund	5,112,735	166,011	175,469	5,112,735	145,457	175,469
Total		815,910	430,907		852,656	423,537

25.2 Equity securities – Quoted

25.2.1 Bank

Name	Number of shares 31.12.2020	Fair value as at 31.12.2020 LKR '000	Cost as at 31.12.2020 LKR '000	Number of shares 31.12.2019	Fair value as at 31.12.2019 LKR '000	Cost as at 31.12.2019 LKR '000
Overseas Reality (Ceylon) PLC	30,538,203	439,750	518,963	30,538,203	488,611	518,963
The Finance PLC	2,080,400	–	83,400	2,080,400	–	83,400
People's Merchant Finance PLC – Ordinary Shares	33,856,246	291,164	311,477	33,856,246	358,876	311,477
The Lanka Hospitals Corporation PLC	7,316,042	390,677	307,274	7,316,042	297,763	307,274
United Mortors Lanka PLC	3,426	271	305	–	–	–
C T Land Development PLC	555	16	24	–	–	–
Total		1,121,878	1,221,443		1,145,250	1,221,114

25.2.2 Group

Name	Number of shares 31.12.2020	Fair value as at 31.12.2020 LKR '000	Cost as at 31.12.2020 LKR '000	Number of shares 31.12.2019	Fair value as at 31.12.2019 LKR '000	Cost as at 31.12.2019 LKR '000
Overseas Reality (Ceylon) PLC	30,538,203	439,750	518,963	30,538,203	488,611	518,963
The Finance PLC	2,080,400	–	83,400	2,080,400	–	83,400
Sanasa Development Bank PLC	2,094,012	131,961	203,382	2,094,012	133,808	203,382
The Lanka Hospitals Corporation PLC	7,316,042	390,677	307,274	7,316,042	297,763	307,274
United Mortors Lanka PLC	3,426	271	305	–	–	–
C T Land Development PLC	555	16	24	–	–	–
Total		962,675	1,113,348		920,182	1,113,019

NOTES TO THE FINANCIAL STATEMENTS

26. Debt instruments at fair value through OCI

► Accounting policy

Investments in debt instruments are measured at fair value through Other Comprehensive Income (OCI) where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Detailed policies are given under Note 5.5.2 to these Financial Statements

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lanka Government Securities	318	318	267,696	318
Debt securities	2,631,913	2,572,749	2,631,913	2,572,749
Total	2,632,231	2,573,067	2,899,609	2,573,067

26.1 Analysis of debt instruments at fair value through OCI based on exposure to credit risk

Bank

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities	318	–	–	318
Debt securities	2,335,904	296,009	–	2,631,913
Total	2,336,222	296,009	–	2,632,231

As at 31 December	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities	318	–	–	318
Debt securities	2,276,740	296,009	–	2,572,749
Total	2,277,058	296,009	–	2,573,067

Group

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities	267,696	–	–	267,696
Debt securities	2,335,904	296,009	–	2,631,913
Total	2,603,600	296,009	–	2,899,609

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities	318	–	–	318
Debt securities	2,276,740	296,009	–	2,572,749
Total	2,277,058	296,009	–	2,573,067

26.2 Allowance for expected credit losses – Debt instruments at fair value through OCI

Bank and Group

As at 31 December	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2020	242	296,009	–	296,251
Gross Charge/(reversal) for the year	85	–	–	85
ECL allowance as at 31 December 2020	327	296,009	–	296,336

As at 31 December	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
ECL allowance as at 1 January 2019	795	6,564	–	7,359
Gross Charge/(reversal) for the year	(553)	289,445	–	288,892
ECL allowance as at 31 December 2019	242	296,009	–	296,251

27. Investments in subsidiaries

▶ Accounting policy

Subsidiaries are entities that are controlled by the Group. Control as referred to here is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the returns of those investees through its power over such investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee
- exposure or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences, until the date that control ceases. Where subsidiaries have been sold or acquired during the year, assets, liabilities, income and expenses of the said subsidiary are included in the Consolidated Financial Statements, from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

Non-controlling interests represent the portion of profit or loss and net assets of the subsidiaries, not owned directly or indirectly by the Bank. The non-controlling interest is presented in the Consolidated Statement of Financial Position within equity, separately from the equity attributable to the equity holders of the Bank. Non-controlling interests in the profit or loss of the Group, is disclosed separately in the Consolidated Statement of Profit or Loss.

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction. Upon the loss of control, the Group derecognises the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control, is recognised in the Statement of Changes in Equity. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

The Bank's investments in subsidiaries are carried at cost in the Separate Financial Statements.

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Investment in quoted subsidiaries	27.1	1,932,931	1,200,464	-	-
Investment in unquoted subsidiaries	27.2	4,950	4,950	-	-
Total		1,937,881	1,205,414	-	-

27.1 Investment in quoted subsidiaries

	Number of shares	Holding as at 31.12.2020 %	Cost 2020 LKR '000	Number of shares	Holding as at 31.12.2019 %	Cost 2019 LKR '000
People's Leasing & Finance PLC						
Ordinary shares	1,184,896,862	75.00	690,958	1,184,896,862	75.00	690,958
Ordinary shares allotted by scrip dividends	93,555,206		1,241,973	35,880,678		509,506
			1,932,931			1,200,464

27.2 Investment in unquoted subsidiaries

	Number of shares	Holding as at 31.12.2020 %	Cost 2020 LKR '000	Number of shares	Holding as at 31.12.2019 %	Cost 2019 LKR '000
People's Travels (Private) Ltd.	495,000	99.00	4,950	495,000	99.00	4,950
Total			4,950			4,950

NOTES TO THE FINANCIAL STATEMENTS

27.3 Investments in subsidiaries

Non-Controlling Interests (NCI)

The following subsidiary has a material NCI:

Name	Principal place of business/country of incorporation	Operating segment	Ownership interest held by NCI	
			2020 %	2019 %
People's Leasing & Finance PLC	No. 1161, Maradana Road, Colombo 8, Sri Lanka	Leasing and finance	25.0	25.0

27.4 Summarised financial information of subsidiaries

The following are summarised financial information for the People's Leasing & Finance PLC as prepared in accordance with LKAS/SLFRS, these have been modified for fair value adjustments on acquisition and for differences in the Group's accounting policies. The information is before inter-company eliminations with other companies in the Group.

	People's Leasing & Finance PLC	
	2020 LKR '000	2019 LKR '000
Statement of comprehensive income		
Revenue	34,521,797	40,368,376
Profit/(Loss) after tax	2,668,888	4,345,849
Other comprehensive income	98,154	(24,360)
Total comprehensive income	2,767,042	4,321,489
Statement of financial position		
Total assets	182,982,409	187,101,272
Total liabilities	144,015,941	150,846,846
Net assets	38,966,468	36,254,426
Statement of cash flows		
Cash flows from operating activities	18,110,464	33,304,113
Cash flows from investing activities	160,476	(258,578)
Cash flows from financing activities	(18,419,892)	(31,390,660)
Net increase in cash and cash equivalents	(148,951)	1,654,875
Dividends paid to NCI during the year	55,000	404,996

NOTES TO THE FINANCIAL STATEMENTS

28. Investments in associates

▶ Accounting policy

Associates are those entities in which the Group has significant influence. Significant influence referred to here is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over such policies. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

The investments in associates are carried in the Statement of Financial Position at cost plus post acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate.

At each reporting date Group determines whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the share of results of equity-accounted investees' in the Income Statement.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised previously.

Date when the Group ceased to have significant influence it discontinues the use of the equity method and accounts for such investments in accordance with the Sri Lanka Accounting Standard – SLFRS 9 – “Financial Instruments”.

As at 31 December	Bank		Holding %	Group	
	2020 LKR '000	2019 LKR '000		2020 LKR '000	2019 LKR '000
People's Merchant Finance PLC	-	-	24.96	531,963	531,085
Total	-	-		531,963	531,085

28.1 Movement in investment in associate companies

As at 31 December	People's Merchant Finance PLC	
	2020 LKR '000	2019 LKR '000
Cost of the investment	541,606	541,606
Add: Share of profit applicable to the Group		
Share of profit/(loss) (net of taxes)	(9,264)	(10,142)
Share of other comprehensive income (net of taxes)	(379)	(379)
Balance as at 31 December	531,963	531,085

NOTES TO THE FINANCIAL STATEMENTS

28.2 Summarised financial information of associate

As at 31 December	People's Merchant Finance PLC	
	2020 LKR '000	2019 LKR '000
Statement of comprehensive income		
Gross income	606,152	491,478
Profit/(loss) after tax	3,519	(40,640)
Other comprehensive income	-	(1,521)
Total comprehensive income	3,519	(42,161)
Statement of financial position		
Total assets	4,548,131	3,617,192
Total liabilities	2,458,442	2,331,003
Net assets	2,089,687	1,286,189

29. Investment Properties

▶ **Accounting policy**

An investment property is recognised if it is probable that future economic benefits associated with the investment property will flow to the Group and cost of the said Investment property can be reliably measured. The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard – LKAS 40 – “Investment Property” of which details are more fully set out in Note 5.11 to these Financial Statements.

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cost				
Balance as at 1 January	1,301,346	1,301,346	1,285,575	201,415
Transfer from PPE upon disposal of subsidiary	-	-	-	1,084,160
Balance as at 31 December	1,301,346	1,301,346	1,285,575	1,285,575
Accumulated depreciation				
Balance as at 1 January	38,301	36,594	26,369	25,620
Charge for the year	1,707	1,707	1,707	749
Balance as at 31 December	40,008	38,301	28,076	26,369
Net book value	1,261,338	1,263,045	1,257,499	1,259,206

NOTES TO THE FINANCIAL STATEMENTS

30. Property, plant and equipment & right-of-use assets**▶ Accounting policy****Property, plant and equipment**

Property, plant and equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Cost model

Plant and equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when the cost is incurred, if the recognition criteria are met.

Revaluation model

The Bank applies the revaluation model for the entire class of freehold land and buildings and leasehold building. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment charged subsequent to the date of the revaluation.

Revaluations are performed every three years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in Income Statement, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in Income Statement, except that deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Subsequent cost

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow into the Group and its cost can be reliably measured.

Restoration cost

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain future economic benefits is charged to Statement of Comprehensive Income as incurred.

Capital work-in-progress

These are expenses of a capital nature directly incurred in the construction of building, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost.

Depreciation

Depreciation is calculated using the straight-line method to write-down the cost of property and equipment to their residual values over their estimated useful lives. Leased assets under finance leases are depreciated over the shorter of either lease term or its useful life, which is limited to maximum tenor of 50 years. Freehold land is not depreciated. The estimated useful lives are as follows:

Category of asset	Period of depreciation*
Freehold buildings	Estimated useful life
Leasehold building	Shorter of lease term or its useful life, which is limited to maximum tenor of 50 years
Furniture, equipment and machinery	20% p.a.
Freehold and leasehold motor vehicles	25% p.a.
Prepaid leases	Over the period of lease
Self-Banking Units (SBU)**	Over the period of three years

* These depreciation rates are applied consistently over the period

** Self-Banking Units (SBU) are classified under machinery and equipment

NOTES TO THE FINANCIAL STATEMENTS

Derecognition

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "other operating income" in the Income Statement in the year the asset is derecognised.

RIGHT-OF-USE assets

The Group has lease contracts for its branches, service centres, select machinery etc. The Group adopted SLFRS 16 using the modified retrospective approach of adoption with effect from the date of initial application of 1 January 2019. Under this approach, the standard is applied retrospectively and thereby the comparative figures were not restated which were reported under LKAS 17. Further, the Bank applied the standard only to contracts that were previously identified as leases, by applying LKAS 17 at the date of initial application.

Upon adoption of SLFRS 16, the Bank recognised such leases as right-of-use assets and lease liabilities for those leases previously classified as operating leases. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

30.1 Property, plant and equipment & right-of-use assets – Bank

	Property, plant and equipment					
	Freehold land	Freehold building	Buildings on leasehold land	Motor vehicles	Furniture	Machinery, equipment and Self-Banking Units
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost/Fair value						
Balance as at 1 January	13,102,109	6,084,747	2,646,645	1,504,117	500,245	3,860,113
Effect of adoption of SLFRS 16 as at 1 January 2019	–	–	–	–	–	–
Additions	–	48,351	9,809	28,454	81,260	842,050
Disposals	–	(4,751)	(2,546)	(12,439)	(5,023)	(161,339)
Transfers/Adjustments	41,573	(46,883)	–	–	924	2,206
Revaluation adjustment on accumulated depreciation	–	(838,308)	(373,499)	–	–	–
Revaluation surplus	5,886,156	371,077	71,580	–	–	–
Balance as at 31 December	19,029,838	5,614,233	2,351,989	1,520,132	577,406	4,543,030
Accumulated depreciation						
Balance as at 1 January	–	702,748	313,060	1,381,383	271,167	2,509,488
Reclassified from prepaid leases upon adoption of SLFRS 16 as at 1 January 2019	–	–	–	–	–	–
Charge for the year	–	282,200	124,953	60,539	84,561	609,309
Disposals	–	–	(240)	(12,439)	(5,023)	(161,339)
Transfers/Adjustments	–	–	–	–	(10)	–
Revaluation adjustment on accumulated depreciation	–	(838,308)	(373,499)	–	–	–
Balance as at 31 December	–	146,640	64,274	1,429,483	350,695	2,957,458
Net book value as at 31 December 2020	19,029,838	5,467,593	2,287,715	90,649	226,711	1,585,572
Capital work-in-progress at cost						
Furniture equipment and machinery at store					1,379	21,374

NOTES TO THE FINANCIAL STATEMENTS

Computer LKR '000	Total property, plant and equipment LKR '000	Right-of-use assets				Total right-of-use assets LKR '000	Total 2020	Total 2019
		Leased lands LKR '000	Buildings LKR '000	ATM/CDM and KIOSK machines LKR '000	LKR '000		LKR '000	LKR '000
6,260,936	33,958,912	1,013,208	3,625,657	5,088,861	9,727,726	43,686,638	31,508,297	
-	-	-	-	-	-	-	9,086,704	
274,504	1,284,428	4,820	758,662	100,411	863,893	2,148,321	3,201,786	
(97,103)	(283,201)	(10,055)	(82,366)	(6,453)	(98,874)	(382,075)	(112,157)	
(4,206)	(6,386)	-	-	-	-	(6,386)	2,008	
-	(1,211,807)	-	-	-	-	(1,211,807)	-	
-	6,328,813	-	-	-	-	6,328,813	-	
6,434,131	40,070,759	1,007,973	4,301,953	5,182,819	10,492,745	50,563,504	43,686,638	
3,490,994	8,668,840	581,213	748,561	1,185,667	2,515,441	11,184,282	6,882,602	
-	-	-	-	-	-	-	552,165	
774,746	1,936,308	25,852	790,146	1,242,631	2,058,629	3,994,937	3,824,365	
(96,997)	(276,038)	(8,060)	(21,013)	(2,717)	(31,790)	(307,828)	(74,850)	
-	(10)	-	-	-	-	(10)	-	
-	(1,211,807)	-	-	-	-	(1,211,807)	-	
4,168,743	9,117,293	599,005	1,517,694	2,425,581	4,542,280	13,659,573	11,184,282	
2,265,388	30,953,466	408,968	2,784,259	2,757,238	5,950,465	36,903,931	32,502,356	
						1,429,134	1,698,056	
50,021	-	-	-	-	-	72,774	109,616	
						38,405,839	34,310,028	

NOTES TO THE FINANCIAL STATEMENTS

30.1.1 On 1 July 2020 – the Bank carried out an independent valuation of all its land and buildings. This valuation was carried out by Messrs Prathap Chartered Valuations & Consultancy (Private) Limited together with D Prathapasinghe [FRICS (UK), Professional Associate Member (IVSL) MBA (UK), BSc. Est. Mgt. & Val. (sp) (Hons) (SJP), PG Dip Eco. Dev. (Colombo), Dip. Surv. (Reading - UK)], an Independent Valuer, on a market value basis. Book values of these properties were adjusted for the revalued amounts and revaluation surplus was credited accordingly to the Revaluation Reserve.

	LKR '000
Amount recognised in other comprehensive income	6,523,641
Amount recognised in income statement	(194,828)
	6,328,813

30.1.2 The carrying amount of revalued assets, in the Financial Statements if carried at net book value is as follows:

Class of assets	Cost	Accumulated depreciation	Net book value as at 31 December 2020
	LKR '000	LKR '000	LKR '000
Freehold land and building	19,225,145	987,024	18,238,121
Buildings on leasehold lands	2,653,909	434,583	2,219,325
	21,879,053	1,421,607	20,457,446

NOTES TO THE FINANCIAL STATEMENTS

30.1.3 Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities as at reporting date.

30.1.4 Unobservable inputs considered in measuring fair value

On 1 July 2020 – the Bank carried out an independent valuation of all its land and buildings. The following table depicts information about significant unobservable inputs used in measuring fair value of the assets categorised under Level 3 of the fair value hierarchy

Type of asset	Valuation technique	2020		
		Significant unobservable inputs	Range of estimates for unobservable inputs LKR	Sensitivity of fair value to unobservable inputs
Freehold land	Comparison method of valuation	Property transaction evidences, internal data from previous valuations and asking prices	70,000.00 – 35,000,000.00	Positively correlated sensitivity
		Estimated cost per square feet, estimated rate of all types of depreciations and obsolescence and rental evidences	150.00 – 8,500.00	Positively correlated sensitivity
Freehold buildings	1. Depreciated replacement cost method and comparison method of valuation	Property transaction evidences, internal data from previous valuations and asking prices	10,000.00 – 45,000.00	Positively correlated sensitivity
	2. Investment method of valuation and comparison method of valuation			
Buildings on leasehold lands	Depreciated replacement cost method and comparison method of valuation	Estimated cost per sq.ft. estimated rate of all types of depreciations and obsolescence and rental evidences	250.00 – 8,000.00	Positively correlated sensitivity

NOTES TO THE FINANCIAL STATEMENTS

30.2 Property, plant and equipment & right-of-use assets – Group

	Property, plant and equipment					
	Freehold land	Freehold building	Buildings on leasehold land	Motor vehicles	Furniture	Machinery, equipment and Self-Banking Units
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost/Valuation						
Balance as at 1 January	16,112,285	10,383,366	2,732,408	2,217,290	1,048,711	4,870,904
Effect of adoption of SLFRS 16 as at 1 January 2019	–	–	–	–	–	–
Additions	–	371,622	9,809	46,954	106,031	911,474
Disposals	–	(4,751)	(2,546)	(92,610)	(7,721)	(175,306)
Transfers/Adjustments	41,573	(357,815)	–	–	924	2,206
Disposal of subsidiary during the year	–	–	–	–	–	–
Exchange rate variance	–	–	–	–	(2,486)	186
Fair value adjustments	–	–	–	–	–	–
Transfers to investment property upon disposal of subsidiary	–	–	–	–	–	–
Revaluation adjustment on accumulated depreciation	–	(838,308)	(373,499)	–	–	–
Revaluation surplus	5,886,156	421,077	71,580	–	–	–
Balance as at 31 December	22,040,014	9,975,191	2,437,752	2,171,634	1,145,459	5,609,464
Accumulated depreciation						
Balance as at 1 January	–	702,542	382,409	1,645,794	707,254	3,207,000
Effect of adoption of SLFRS 16 as at 1 January 2019	–	–	–	–	–	–
Charge for the year	–	282,200	124,953	114,458	127,711	696,332
Disposals	–	–	(240)	(37,203)	(7,720)	(175,312)
Impairment	–	–	–	–	–	–
Transfers/Adjustments	–	–	–	–	(10)	–
Disposal of subsidiary during the year	–	–	–	–	–	–
Exchange rate variance	–	–	–	–	(346)	135
Revaluation adjustment on accumulated depreciation	–	(838,308)	(373,499)	–	–	–
Balance as at 31 December	–	146,434	133,623	1,723,049	826,889	3,728,155
Net book value as at 31 December 2020	22,040,014	9,828,757	2,304,129	448,585	318,570	1,881,309
Capital work-in-progress at cost						
Furniture equipment and machinery at store					1,379	21,374

NOTES TO THE FINANCIAL STATEMENTS

Computer LKR '000	Total property, plant and equipment LKR '000	Right-of-use assets				Total right-of-use assets LKR '000	Total 2020	Total 2019
		Leased lands LKR '000	Buildings LKR '000	ATM/CDM and KIOSK machines LKR '000	LKR '000		LKR '000	LKR '000
7,129,447	44,494,411	1,101,105	4,947,909	5,088,861	11,137,875	55,632,286	42,732,791	
-	-	-	-	-	-	-	10,260,348	
336,003	1,781,893	14,318	1,559,657	100,411	1,674,386	3,456,279	3,742,353	
(129,767)	(412,701)	(24,588)	(132,486)	(6,453)	(163,527)	(576,228)	(156,837)	
(4,206)	(317,318)	-	-	-	-	(317,318)	2,008	
-	-	-	-	-	-	-	(107,148)	
176	(2,124)	-	-	-	-	(2,124)	4,608	
-	-	-	-	-	-	-	238,323	
-	-	-	-	-	-	-	(1,084,160)	
-	(1,211,807)	-	-	-	-	(1,211,807)	-	
-	6,378,813	-	-	-	-	6,378,813	-	
7,331,653	50,711,167	1,090,835	6,375,080	5,182,819	12,648,734	63,359,901	55,632,286	
4,167,732	10,812,731	587,345	1,109,774	1,185,667	2,882,786	13,695,517	8,932,765	
-	-	-	-	-	-	-	555,232	
868,464	2,214,118	25,852	1,152,560	1,242,631	2,421,043	4,635,161	4,420,561	
(129,665)	(350,140)	(8,060)	(34,915)	(2,717)	(45,692)	(395,832)	(116,967)	
-	-	36,965	-	-	36,965	36,965	-	
-	(10)	-	-	-	-	(10)	-	
-	-	-	-	-	-	-	(96,493)	
161	(50)	-	-	-	-	(50)	419	
-	(1,211,807)	-	-	-	-	(1,211,807)	-	
4,906,692	11,464,842	642,102	2,227,419	2,425,581	5,295,102	16,759,944	13,695,517	
2,424,961	39,246,325	448,733	4,147,661	2,757,238	7,353,632	46,599,957	41,936,769	
						1,429,134	1,698,056	
50,021						72,774	109,617	
						48,101,865	43,744,442	

NOTES TO THE FINANCIAL STATEMENTS

30.2.1 Book values of these properties were adjusted for revalued amounts and revaluation surplus was credited accordingly to the revaluation reserve

	LKR '000
Amount recognised in other comprehensive income	6,573,641
Amount recognised in income statement	(194,828)
	6,378,813

31. Intangible assets and goodwill**▶ Accounting policy**

Intangible assets include all computer software costs incurred, licensed for use by the Group. Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Software is amortised on a straight-line basis in Income Statement over its estimated useful life, from the date on which it is available for use.

Goodwill represents the excess of the cost of acquisition over the fair value of Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Detailed policies of goodwill and intangible assets are set out in Note 5.12 to these Financial Statements.

31.1 Intangible assets

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cost				
As at beginning of the year	1,982,609	1,552,292	2,201,524	1,788,352
Disposal of subsidiary during the year	-	-	-	(31,171)
Additions during the year	196,222	430,317	208,570	444,343
Disposals during the year	-	-	(61)	-
Adjustments during the year	-	-	2,245	-
As at end of the year	2,178,831	1,982,609	2,412,278	2,201,524
Accumulated amortisation				
As at beginning of the year	1,281,734	1,112,775	1,464,526	1,305,978
Disposal of subsidiary during the year	-	-	-	(26,699)
Charge for the year	194,916	168,959	203,556	185,247
Adjustments during the year	-	-	2,840	-
As at end of the year	1,476,650	1,281,734	1,670,922	1,464,526
Net book value	702,181	700,875	741,356	736,998

NOTES TO THE FINANCIAL STATEMENTS

31.2 Goodwill

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cost				
As at beginning of the year			417,099	417,099
As at end of the year			417,099	417,099
Accumulated impairment				
As at beginning of the year			63,383	30,000
Impairment for the year			87,342	33,383
As at end of the year			150,725	63,383
Net book value			266,374	353,716
Total net book value			1,007,730	1,090,714

32. Other assets

Unamortised day one difference on staff loans

All staff loans are granted at below market interest rates and are initially recognised at fair value according to Sri Lanka Accounting Standard SLFRS 9 – “Financial Instruments”. The difference between granted amount and its fair value is treated as Unamortised day one difference on staff loans and amortised over the loan period

Receivables

Receivables predominantly include the amount receivable on behalf of the senior citizen interest subsidy

Insurance and insurance receivables

The Group cedes insurance risk to reinsurers in the normal course of business. Reinsurance receivables represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer’s policies and are in accordance with the related reinsurance contract.

Net employee benefit asset – Post 1996 Pension Fund

Net employee benefit assets represents net benefit assets of retirement benefit plan for the employees recruited to the Bank on or after 1 January 1996. For more details refer Note 37.2

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Deposits and prepayments		2,836,218	2,687,525	2,836,217	2,687,525
Unamortised day one difference on staff loans		10,430,356	11,642,545	10,430,356	11,642,545
Receivables		5,167,625	10,802,579	5,167,625	10,802,579
Insurance and insurance receivables		-	-	753,304	947,548
Net employee benefit asset – Post-1996 pension fund	37.2	-	695,507	-	695,507
Others		5,329,748	5,813,901	6,215,342	6,673,104
Total		23,763,947	31,642,057	25,402,844	33,448,808

33. Due to banks

▶ **Accounting policy**

Due to banks include money market borrowings and borrowings from banks. These are initially recognised at fair value. Subsequent to initial recognition, these are measured at their amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Money market borrowings	163,063,795	205,848,613	163,063,795	205,848,613
Other borrowings	1,425,828	1,635,833	9,376,000	13,585,462
Total	164,489,623	207,484,446	172,439,795	219,434,075

34. Due to other customers

▶ **Accounting policy**

Due to customers include demand deposits, savings deposits, term deposits including call deposits, certificate of deposits, and margin deposits.

These deposits are initially recognised at fair value. Subsequent to initial recognition, deposits are measured at their amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Total amount due to other customers	1,835,099,456	1,491,385,937	1,935,194,040	1,588,903,098
Total	1,835,099,456	1,491,385,937	1,935,194,040	1,588,903,098

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Analysis				
By product				
Demand deposits (current accounts)	75,135,538	53,141,785	74,036,176	51,674,274
Savings deposits	675,994,591	513,230,302	683,131,848	519,187,318
Fixed deposits	1,080,610,331	921,652,378	1,172,016,115	1,012,151,033
Other products	3,358,996	3,361,472	6,009,901	5,890,473
Total	1,835,099,456	1,491,385,937	1,935,194,040	1,588,903,098
By currency				
Sri Lanka rupee	1,637,875,615	1,361,165,004	1,737,970,199	1,458,682,165
United State dollar	182,107,906	114,289,379	182,107,906	114,289,379
Great Britain pound	3,159,988	2,971,349	3,159,988	2,971,349
Others	11,955,947	12,960,205	11,955,947	12,960,205
Total	1,835,099,456	1,491,385,937	1,935,194,040	1,588,903,098

35. Other borrowings

► Accounting policy

Other borrowings include refinance borrowings from Central Bank and other financial institutions and borrowing under repurchase agreements.

Subsequent to initial recognition these borrowings are measured at their amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Central Bank of Sri Lanka	4,219,206	856,636	4,219,206	856,636
Other financial institutions	3,785,145	2,518,041	3,785,145	2,534,564
Borrowing under repurchase agreement	28,358,083	13,950,283	28,358,083	12,898,302
	36,362,434	17,324,960	36,362,434	16,289,502

36. Deferred tax (assets)/liabilities

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Differed tax liabilities	6,682,977	5,339,075	8,299,101	7,157,513
Deferred tax assets	(7,378,401)	(4,267,278)	(7,493,659)	(4,336,093)
	(695,424)	1,071,797	805,442	2,821,420

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	Bank							
	2020				2019			
	Deferred tax asset	Deferred tax liability	Income statement	Statement of comprehensive income	Deferred tax asset	Deferred tax liability	Income statement	Statement of comprehensive income
Retirement benefit	5,901,327	296,167	676,889	(3,402,368)	3,614,967	735,286	516,927	(2,814,470)
Impairment allowance for loan advances	1,294,165	-	(755,589)	-	538,576	-	(453,705)	-
Accelerated depreciation allowance for tax purpose – PPE	-	1,445,888	(43,598)	178,496	-	1,310,990	(18,054)	-
Revaluation of Freehold land and building	-	4,940,922	-	1,648,123	-	3,292,799	-	-
Right-of-use asset	182,909	-	(69,175)	-	113,735	-	(113,735)	-
	7,378,401	6,682,977	(191,473)	(1,575,749)	4,267,278	5,339,075	(68,567)	(2,814,470)

As at 31 December	Group							
	2020				2019			
	Deferred tax asset	Deferred tax liability	Income statement	Statement of comprehensive income	Deferred tax asset	Deferred tax liability	Income statement	Statement of comprehensive income
Retirement benefit	6,016,585	205,336	643,108	(3,374,264)	3,683,782	623,015	482,639	(2,819,406)
Carry forward tax losses	-	(3,701)	8,652	-	-	(12,353)	1,032	-
Impairment allowance for loan receivables	1,294,165	(949,265)	(1,315,355)	-	538,576	(689,224)	(105,977)	-
Deferred tax on transitional adjustment	-	(266,494)	-	-	-	-	-	-
Accelerated depreciation allowance for tax purpose – (Lease)	-	1,564,206	252,369	-	-	1,311,837	(2,176,167)	-
Accelerated depreciation allowance for tax purpose – (PPE)	-	1,705,851	30,214	178,496	-	1,497,012	40,418	-
Revaluation of freehold land and building	-	6,062,526	(1,930)	1,662,123	-	4,408,786	(3,106)	150,113
Right-of-use-asset	182,909	(19,358)	(108,021)	-	113,735	18,440	(95,294)	-
	7,493,659	8,299,101	(490,963)	(1,533,645)	4,336,093	7,157,513	(1,856,455)	(2,669,293)

NOTES TO THE FINANCIAL STATEMENTS

37. Other liabilities

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Deferred income in respect of off-balance sheet items		418,695	413,383	418,695	413,383
Expected credit loss in respect of contingent liabilities and commitments	43.3	547,579	1,174,344	547,579	1,174,344
Sundry creditors		3,995,263	3,628,196	3,995,263	3,628,196
Net defined benefit obligation – Pre-1996 Pension Trust Fund	37.1	19,151,770	10,441,586	19,151,770	10,441,586
Net defined benefit obligation – Post-1996 Pension Fund	37.2	144,187	–	144,187	–
Provision for gratuity	37.3	722,474	538,498	1,350,596	1,154,368
Lease liability	37.4	6,017,463	7,027,076	7,415,918	7,922,255
Payable on other expenses		3,548,739	3,340,351	3,877,066	3,828,002
Insurance liabilities and reinsurance payable		–	–	4,591,123	4,902,211
Other liabilities		6,495,001	8,061,683	9,779,262	12,145,740
Total		41,041,170	34,625,117	51,271,458	45,610,085

37.1 Net defined benefit obligation – Pre-1996 Pension Trust Fund

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1 January 1996, for which an actuarial valuation was carried out using the "Projected Unit Credit Method" in accordance with the Sri Lanka Accounting Standard – LKAS 19 – "Employee Benefits". The results of the actuarial valuation of the Pre-1996 Pension Plan is summarised below:

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Fair value of plan assets	37.1.1	(48,662,274)	(46,379,053)	(48,662,274)	(46,379,053)
Present value of obligations	37.1.2	67,814,044	56,820,639	67,814,044	56,820,639
Net defined benefit obligation		19,151,770	10,441,586	19,151,770	10,441,586

37.1.1 Fair value of plan assets

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Plan assets comprise:				
Fixed deposits	32,230,930	23,611,000	32,230,930	23,611,000
Government Securities	3,701,000	9,350,081	3,701,000	9,350,081
Debentures	12,500,000	12,500,000	12,500,000	12,500,000
Net current assets	230,344	917,972	230,344	917,972
Total	48,662,274	46,379,053	48,662,274	46,379,053
Actual return on plan assets	4,081,138	4,175,210	4,081,138	4,175,210

NOTES TO THE FINANCIAL STATEMENTS

Movement in the fair value of plan assets

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Fair value of plan assets as at 1 January	46,379,053	45,365,631	46,379,053	45,365,631
Expected return on plan assets	4,448,200	5,110,852	4,448,200	5,110,852
Benefit paid by the plan	(5,893,759)	(6,029,822)	(5,893,759)	(6,029,822)
Actual employer contribution	4,095,841	2,520,615	4,095,841	2,520,615
Actuarial gain/(losses)	(367,061)	(588,223)	(367,061)	(588,223)
Fair value of plan assets as at 31 December	48,662,274	46,379,053	48,662,274	46,379,053

37.1.2 Movement in the present value of the defined benefit obligations

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Defined benefit obligations as at 1 January	56,820,639	49,027,620	56,820,639	49,027,620
Benefit paid by the plan	(5,893,759)	(6,029,822)	(5,893,759)	(6,029,822)
Current service cost	544,727	465,959	544,727	465,959
Interest cost	5,852,526	5,951,953	5,852,526	5,951,953
Actuarial (gain)/losses	10,489,911	7,404,929	10,489,911	7,404,929
Present value of defined benefit obligation as at 31 December	67,814,044	56,820,639	67,814,044	56,820,639

37.1.3 Net expenses recognised in income statement

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Current service cost	544,727	465,959	544,727	465,959
Interest cost	5,852,526	5,951,953	5,852,526	5,951,953
Expected return	(4,448,200)	(5,110,853)	(4,448,200)	(5,110,853)
Net expenses	1,949,053	1,307,059	1,949,053	1,307,059

37.1.4 Actuarial (gains)/losses recognised in other comprehensive income

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Amount accumulated in retained earnings as at 1 January	(13,159,689)	(5,166,537)	(13,159,689)	(5,166,537)
Recognised during the year	(10,856,972)	(7,993,152)	(10,856,972)	(7,993,152)
Amount accumulated in retained earnings as at 31 December	(24,016,661)	(13,159,689)	(24,016,661)	(13,159,689)

NOTES TO THE FINANCIAL STATEMENTS

37.1.5 Actuarial assumptions

The following are the principal actuarial assumptions as at the reporting date:

As at 31 December	Bank		Group	
	2020 %	2019 %	2020 %	2019 %
Financial assumptions				
Discount rate	7.97	10.30	7.97	10.30
Increase in cost of living allowances	5.00	5.00	5.00	5.00
Future gross salary increase	9.00	9.00	9.00	9.00
Demographic assumptions				
Mortality table	RP – 2000	RP – 2000	RP – 2000	RP – 2000

37.1.6 Sensitivity of assumptions employed in actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Comprehensive Income Statement and the Statement of Financial Position is the assumed changes in discount rate and salary increment rate as follows:

As at 31 December	Bank				Group			
	2020		2019		2020		2019	
	Effect on comprehensive Income Statement increase/(reduction) LKR '000	Effect on employee benefit obligation increase/(reduction) in the liability LKR '000	Effect on comprehensive Income Statement increase/(reduction) LKR '000	Effect on employee benefit obligation increase/(reduction) in the liability LKR '000	Effect on comprehensive Income Statement increase/(reduction) LKR '000	Effect on employee benefit obligation increase/(reduction) in the liability LKR '000	Effect on comprehensive Income Statement increase/(reduction) LKR '000	Effect on employee benefit obligation increase/(reduction) in the liability LKR '000
Increase/(decrease) in discount rate								
1%	4,972,074	(4,972,074)	3,697,104	(3,697,104)	4,972,074	(4,972,074)	3,697,104	(3,697,104)
-1%	(5,724,517)	5,724,517	(4,203,822)	4,203,822	(5,724,517)	5,724,517	(4,203,822)	4,203,822
Increase/(decrease) in salary increment								
1%	(1,150,646)	1,150,646	(785,254)	785,254	(1,150,646)	1,150,646	(785,254)	785,254
-1%	1,074,192	(1,074,192)	736,825	(736,825)	1,074,192	(1,074,192)	736,825	(736,825)

37.2 Net defined benefit obligation – Post-1996 Pension Fund

The Board of Directors of the Bank approved this retirement benefit plan for the employees recruited to the Bank on or after 1 January 1996. An actuarial valuation was carried out using the "Projected Unit Credit Method" in accordance with the Sri Lanka Accounting Standard – LKAS 19 "Employee Benefits". The results of the actuarial valuation of the post-1996 employment benefit plan is summarised below.

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Fair value of plan assets	37.2.1	8,513,023	7,050,732	8,513,023	7,050,732
Present value of obligations	37.2.2	(8,657,210)	(6,355,225)	(8,657,210)	(6,355,225)
Net defined benefit (Obligation)/Asset		(144,187)	695,507	(144,187)	695,507

NOTES TO THE FINANCIAL STATEMENTS

37.2.1 Fair value of plan assets

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Plan assets comprise:				
Fixed deposits	8,294,251	6,788,249	8,294,251	6,788,249
Net current assets	218,772	262,483	218,772	262,483
Total	8,513,023	7,050,732	8,513,023	7,050,732
Actual return on plan assets	590,420	617,587	590,420	617,587

Movement in the fair value of plan assets

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Fair value of plan assets as at 1 January	7,050,732	5,646,441	7,050,732	5,646,441
Expected return on plan assets	734,778	686,075	734,778	686,075
Benefit paid by the plan	(10,852)	(8,088)	(10,852)	(8,088)
Actual employer contribution	882,723	794,792	882,723	794,792
Actuarial gain /(losses)	(144,358)	(68,488)	(144,358)	(68,488)
Fair value of plan assets as at 31 December	8,513,023	7,050,732	8,513,023	7,050,732

37.2.2 Movement in the present value of the defined benefit obligations

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Defined benefit obligations as at 1 January	6,355,225	3,693,372	6,355,225	3,693,372
Benefit paid by the plan	(10,852)	(8,088)	(10,852)	(8,088)
Current service cost	592,420	358,801	592,420	358,801
Interest cost	662,850	449,114	662,850	449,114
Actuarial (gain)/losses	1,057,566	1,862,025	1,057,566	1,862,025
Present value of defined benefit obligation as at 31 December	8,657,210	6,355,225	8,657,210	6,355,225

37.2.3 Net expenses recognised in Income Statement

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Current service cost	592,420	358,801	592,420	358,801
Interest cost	662,850	449,114	662,850	449,114
Expected return	(734,778)	(686,074)	(734,778)	(686,074)
Net expenses	520,492	121,841	520,492	121,841

NOTES TO THE FINANCIAL STATEMENTS

37.2.4 Actuarial (gains)/losses recognised in other comprehensive income

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Amount accumulated in retained earnings as at 1 January	(1,924,741)	5,772	(1,924,741)	5,772
Recognised during the year	(1,201,924)	(1,930,513)	(1,201,924)	(1,930,513)
Amount accumulated in retained earnings as at 31 December	(3,126,665)	(1,924,741)	(3,126,665)	(1,924,741)

37.2.5 Actuarial assumptions

The following are the principal actuarial assumptions as at the reporting date:

As at 31 December	Bank		Group	
	2020 %	2019 %	2020 %	2019 %
Financial assumptions				
Discount rate	8.90	10.43	8.90	10.43
Increase in cost of living allowance	5.00	5.00	5.00	5.00
Future gross salary increase	6.50	8.10	6.50	8.10
Demographic assumptions				
Mortality table	RP – 2000	RP – 2000	RP – 2000	RP – 2000

37.2.6 Sensitivity of assumptions employed in actuarial valuation (Bank and Group)

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Comprehensive Income Statement and the Statement of Financial Position is the assumed changes in discount rate and salary increment rate as follows:

As at 31 December	2020		2019	
	Effect on statement of profit or loss increase/(reduction) LKR '000	Effect on employee benefit obligation increase/(reduction) in the liability LKR '000	Effect on statement of profit or loss increase/(reduction) LKR '000	Effect on employee benefit obligation increase/(reduction) in the liability LKR '000
Increase/(decrease) in discount rate				
1%	1,596,102	(1,596,102)	1,139,529	(1,139,529)
-1%	(2,082,252)	2,082,252	(1,475,518)	1,475,518
Increase/(decrease) in salary increment				
1%	(1,536,895)	1,536,895	(1,062,840)	1,062,840
-1%	1,274,832	(1,274,832)	886,616	(886,616)

NOTES TO THE FINANCIAL STATEMENTS

37.3 Contribution to defined benefit plan – Gratuity

Employees who joined the Bank on or after 1 January 1996 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, or if opted can join the proposed new post-1996 pension scheme and if so such employees will forfeit their right to gratuity. An actuarial valuation was carried out using the "Projected Unit Credit Method" in accordance with the Sri Lanka Accounting Standard - LKAS 19 "Employee Benefits".

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance as at 1 January	538,498	370,146	1,154,368	876,509
Current service cost	60,631	35,759	121,907	92,598
Interest cost	55,196	44,861	116,471	101,699
Benefits paid during year	(24,268)	(40,281)	(33,433)	(49,523)
Actuarial losses/(Gains) on obligations	92,417	128,013	(8,717)	148,063
Disposal of subsidiary during the year	-	-	-	(14,978)
Balance as at 31 December	722,474	538,498	1,350,596	1,154,368

37.3.1 The Principal financial assumptions used in the valuations are as follows:

	Bank	
	2020	2019
Discount rate	8.06 % p.a	10.25% p.a
Gross salary increase for all grades	8.6% p.a	8.6% p.a
Normal age of retirement	55 years	55 years

37.3.2 Sensitivity of assumptions employed in actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Statement of Financial Position is the assumed changes in discount rate and salary increment rate as follow:

	2020		2019	
	Effect on statement of profit or loss increase/(reduction) LKR '000	Effect on employee benefit obligation increase/(reduction) in the liability LKR '000	Effect on statement of profit or loss increase/(reduction) LKR '000	Effect on employee benefit obligation increase/(reduction) in the liability LKR '000
Increase/(decrease) in discount rate				
1%	66,084	(66,084)	43,043	(43,043)
-1%	(77,253)	77,253	(49,783)	49,783
Increase/(decrease) in salary increment				
1%	(77,882)	77,882	(50,619)	50,619
-1%	67,634	(67,634)	44,410	(44,410)

NOTES TO THE FINANCIAL STATEMENTS

37.4 Lease liability

	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance as at 1 January	7,027,076	7,921,884	7,922,255	8,875,021
Additions during the year	841,204	633,223	1,630,668	836,266
Disposals during the year	(71,295)	–	(125,252)	–
Accretion of interest	719,619	810,108	898,675	915,328
Payments during the year	(2,499,141)	(2,338,139)	(2,910,428)	(2,704,360)
Balance as at 31 December	6,017,463	7,027,076	7,415,918	7,922,255

38. Subordinated term debts

▶ Accounting policy

Subordinated term debts represent funds borrowed for long-term funding purposes which are subordinated to the other claims. Subsequent to initial recognition, subordinated term debts are measured at their amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

As at 31 December	Interest rate and repayment terms	Issue date	Maturity date	Bank		Group	
				2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Issued by the Bank							
(i) Tranche 2	13.5% – Biannually	30 December 2009	29 December 2022	2,501,849	2,501,849	2,501,849	2,501,849
(ii) Tranche 3	13.0% – Biannually	30 December 2011	29 December 2022	5,003,562	5,003,562	5,003,562	5,003,562
(iii) Tranche 4	13.0% – Biannually	15 June 2013	29 December 2022	5,030,273	5,030,273	5,030,273	5,030,273
(iv) Type A	12.0% – Annually	8 November 2019	8 November 2024	6,679,516	6,679,516	6,679,516	6,679,516
(v) Type B	12.25% – Annually	8 November 2019	8 November 2027	3,499,290	3,499,290	3,499,290	3,499,290
(vi) Type A	9.5% – Annually	27 July 2020	27 July 2025	13,429,041	–	13,429,041	–
(vii) Type B	10.25% – Annually	27 July 2020	27 July 2028	7,414,165	–	7,414,165	–
Issued by the subsidiary							
Listed debentures							
Type B	10% – Annually	13 November 2015	12 November 2020	–	–	–	3,871,452
Non-listed debentures							
Type B	12.25% – Biannually	16 November 2016	16 November 2020	–	–	–	665,889
Type C	12.6% – Biannually	16 November 2016	16 November 2021	–	–	6,892,419	6,887,462
Type A	12.4% – Annually	18 April 2018	18 April 2022	–	–	761,451	760,552
Type B	12.8% – Annually	18 April 2018	18 April 2023	–	–	5,656,469	5,613,246
Total				43,557,696	22,714,490	56,868,035	40,513,091
Due within 1 year				–	–	6,892,419	4,537,341
Due after 1 year				43,557,696	22,714,490	49,975,616	35,975,750
Total				43,557,696	22,714,490	56,868,035	40,513,091

NOTES TO THE FINANCIAL STATEMENTS

38.1 Movement in subordinated term debts

	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance as at 1 January	22,714,490	12,533,904	40,513,091	33,084,526
Proceed received from subordinated debt	20,000,000	10,000,000	20,000,000	10,000,000
Repayment of subordinated debt	–	–	(4,483,521)	(2,717,820)
Interest expense on subordinated debt	3,689,299	1,818,086	5,722,717	4,142,736
Interest paid on subordinated debt	(2,846,093)	(1,637,500)	(4,884,252)	(3,996,351)
Balance as at 31 December	43,557,696	22,714,490	56,868,035	40,513,091

39. Stated capital/assigned capital

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Stated capital	39.1	49,998	49,998	49,998	49,998
Assigned capital	39.2	12,152,000	12,152,000	12,152,000	12,152,000
		12,201,998	12,201,998	12,201,998	12,201,998

39.1 Stated capital

39.1.1 Movement of stated capital

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Authorised				
1,000,000,000 ordinary shares of 50/- each	50,000,000	50,000,000	50,000,000	50,000,000

In September 2019, the People's Bank Act No. 29 of 1961 was amended whereby, amongst other, the Bank's authorised share capital was increased to LKR 50.0 Bn. from LKR 1.0 Bn. previously.

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Fully paid				
999,960 Ordinary Shares of 50/- each	49,998	49,998	49,998	49,998

All issued shares are fully-paid with the exception of 40 shares which yet remain unpaid.

NOTES TO THE FINANCIAL STATEMENTS

39.1.2 Principal shareholders of the Bank are as follows

As at 31 December	2020 %	2019 %
Government of Sri Lanka	92.27	92.27
Cooperative Societies	7.73	7.73
	100.00	100.00

39.2 Assigned capital (capital pending allotment)

During the period 2005 and 2008 and in 2017, the General Treasury – Ministry of Finance infused an aggregate of LKR 12,152 Mn. in People's Bank as new capital. These amounts were held in the Bank's Capital Pending Allotment/Assigned Capital account pending conclusion of applicable formalities to issue new shares and to transfer to the Paid in Capital Account. Upon conclusion thereto, the General Treasury, Ministry of Finance will own 99.97% in People's Bank whilst the Cooperative Societies will have 0.03%.

40. Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required by the Banking Act No. 30 of 1988. Accordingly, the Bank should, out of profits after taxation but before any dividend is declared, transfer to the Statutory Reserve Fund a sum equivalent to not less than 5% until the permanent reserve is equal to 50% of the Bank's paid-up capital and not less than 2% until the Permanent Reserve equals the paid-up capital.

Accordingly, Bank has transferred LKR 709 Mn. for the current year.

41. Other reserves**41.1 Revaluation reserve**

This reserve has been created in accordance with Sri Lanka Accounting Standard – LKAS 16 – “Property, Plant and Equipment”

41.2 Capital reserve

This reserve has been created in 1987 and increased in 1998, has no transferred to date.

41.3 Special risk reserve

In terms of Central Bank directives, 25% of Primary Dealer Unit (PDU) profit has been transferred to Special Risk Reserve in order to promote the safety, soundness, and the stability of the Primary Dealer System and to build-up Primary Dealer Capital Base.

According to Central Bank Direction 08/11/011/0019/001 dated 14 February 2013 Bank is exempted from the requirement of maintaining the reserve. Therefore, no transfer is made to the reserve this year based on the direction from the Central Bank of Sri Lanka.

41.4 General reserve

This reserve has been created under Section 22 (2) of the People's Bank Act No. 29 of 1961. The General Reserve represents accumulated unallocated retained profits and losses which are available for distribution and for settlement of debentures issued.

41.5 Financial assets at FVOCI reserve

This FVOCI reserve comprises the cumulative net change in equity instruments at FVOCI and debt instruments at FVOCI until such investments are derecognised or impaired.

NOTES TO THE FINANCIAL STATEMENTS

41.6 Special levy to Treasury/Dividend

Payment of LKR 219 Mn. was made according to the agreement between the Government of Sri Lanka and the People's Bank, the Bank is required to pay back 25% of the Restructuring Bond Interest to the General Treasury as a dividend. Additional details relating to this expense is reflected in Note 22.3.C.C

LKR 2,804 Mn. pertains to a dividend/special levy paid to the Consolidated Fund of the Government of Sri Lanka as determined by the Ministry of Finance.

42. Movement in retained earnings and other reserves**42.1 Bank**

	Statutory reserve	Revaluation reserve	Capital reserve	Special risk reserve	General reserve	Financial assets at FVOCI reserve	Retained earnings	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January 2019	6,669,490	14,051,911	5,663	1,633,710	10,187,228	130,436	46,329,489	79,007,927
Profit for the year	-	-	-	-	-	-	12,925,683	12,925,683
Net Gains/(Losses) on equity instruments at fair value through OCI	-	-	-	-	-	189,223	-	189,223
Net Gains/(Losses) on debt instruments at fair value through OCI	-	-	-	-	-	296,507	-	296,507
Net actuarial gains and losses on defined benefit plans	-	-	-	-	-	-	(10,051,678)	(10,051,678)
Deferred tax effect on defined benefit plans	-	-	-	-	-	-	2,814,470	2,814,470
Transfer to reserve during the year	646,284	-	-	-	873,864	-	(1,520,148)	-
Special levy to Treasury/Dividend	-	-	-	-	-	-	(2,419,690)	(2,419,690)
Balance as at 31 December 2019	7,315,774	14,051,911	5,663	1,633,710	11,061,092	616,166	48,078,126	82,762,442
Balance as at 1 January 2020	7,315,774	14,051,911	5,663	1,633,710	11,061,092	616,166	48,078,126	82,762,442
Profit for the year	-	-	-	-	-	-	14,174,943	14,174,943
Net Gains/(Losses) on equity instruments at fair value through OCI	-	-	-	-	-	(67,773)	-	(67,773)
Net Gains/(Losses) [including change in ECL] on debt instruments at fair value through OCI	-	-	-	-	-	(12,418)	-	(12,418)
Net defined benefit obligation	-	-	-	-	-	-	(12,151,314)	(12,151,314)
Deferred tax effect on defined benefit plans	-	-	-	-	-	-	3,402,368	3,402,368
Revaluation surplus of land and building	-	6,523,641	-	-	-	-	-	6,523,641
Deferred tax effect on revaluation surplus	-	(1,826,619)	-	-	-	-	-	(1,826,619)
Transfer to reserve during the year (Note 40) and (Note 41.4)	708,747	-	-	-	873,864	-	(1,582,611)	-
Special levy to Treasury/ Dividend (Note 41.6)	-	-	-	-	-	-	(3,023,670)	(3,023,670)
Balance as at 31 December 2020	8,024,521	18,748,933	5,663	1,633,710	11,934,956	535,975	48,897,842	89,781,600

NOTES TO THE FINANCIAL STATEMENTS

42.2 Group

	Statutory reserve	Revaluation reserve	Capital reserve	Special risk reserve	General reserve	Financial assets at FVOCI reserve	Exchange equalisation fund	Retained earnings	Total	Non-controlling interest	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January 2019	6,669,490	15,797,815	5,663	1,633,710	10,187,228	130,436	272,378	66,494,500	101,191,220	10,120,232	111,311,452
Profit for the year	-	-	-	-	-	-	-	14,984,837	14,984,837	1,193,331	16,178,168
Net Gains/(Losses) on equity instruments at fair value through OCI	-	-	-	-	-	71,812	-	-	71,812	(11,664)	60,148
Net Gains/(Losses) on debt instruments at fair value through OCI	-	-	-	-	-	296,507	-	-	296,507	-	296,507
Net Gains/(Losses) on translating the financial statements of foreign operation	-	-	-	-	-	-	(38,097)	-	(38,097)	(12,699)	(50,796)
Net actuarial gains and losses on defined benefit plans	-	-	-	-	-	-	-	(10,066,511)	(10,066,511)	(5,217)	(10,071,728)
Deferred tax effect on defined benefit plans	-	-	-	-	-	-	-	2,818,174	2,818,174	1,234	2,819,408
Revaluation surplus on land and building	-	178,742	-	-	-	-	-	-	178,742	59,581	238,323
Deferred tax effect on revaluation surplus	-	(50,047)	-	-	-	-	-	-	(50,047)	(16,683)	(66,730)
Deferred tax effect on revaluation surplus in previous years	-	(62,539)	-	-	-	-	-	-	(62,539)	(20,846)	(83,385)
Transfer to reserve during the year	646,284	-	-	-	873,864	-	-	(1,520,148)	-	-	-
Special levy to Treasury/Dividend	-	-	-	-	-	-	-	(2,419,690)	(2,419,690)	-	(2,419,690)
Movement due to changes in ownership	-	-	-	-	-	-	-	49,046	49,046	(41,613)	7,433
Share of other comprehensive income of associate companies [Net of Tax]	-	-	-	-	-	-	-	(379)	(379)	-	(379)
Dividend payment	-	-	-	-	-	-	-	-	-	(404,996)	(404,996)
Balance as at 31 December 2019	7,315,774	15,863,971	5,663	1,633,710	11,061,092	498,755	234,281	70,339,829	106,953,075	10,860,660	117,813,735
Balance as at 1 January 2020	7,315,774	15,863,971	5,663	1,633,710	11,061,092	498,755	234,281	70,339,829	106,953,075	10,860,660	117,813,735
Profit for the year	-	-	-	-	-	-	-	15,229,858	15,229,858	860,628	16,090,486
Net Gains/(Losses) on equity instruments at fair value through OCI	-	-	-	-	-	669	-	-	669	(13,048)	(12,379)
Net Gains/(Losses)[including change in ECL] on debt instruments at fair value through OCI	-	-	-	-	-	(6,616)	-	-	(6,616)	-	(6,616)
Net Gains/(Losses) on translating the financial statements of foreign operation	-	-	-	-	-	-	34,251	-	34,251	11,417	45,668
Net defined benefit obligation	-	-	-	-	-	-	-	(12,076,020)	(12,076,020)	25,277	(12,050,743)
Deferred tax effect on defined benefit plans	-	-	-	-	-	-	-	3,381,290	3,381,290	(7,026)	3,374,264
Revaluation surplus on land and building	-	6,561,141	-	-	-	-	-	-	6,561,141	12,500	6,573,641
Deferred tax effect on revaluation surplus	-	(1,837,119)	-	-	-	-	-	-	(1,837,119)	(3,500)	(1,840,619)
Transfer to reserve during the year (Note 40) and (Note 41.4)	708,747	-	-	-	873,864	-	-	(1,582,611)	-	-	-
Special levy to Treasury/Dividend (Note 41.6)	-	-	-	-	-	-	-	(3,023,670)	(3,023,670)	-	(3,023,670)
Dividend payment	-	-	-	-	-	-	-	-	-	(55,000)	(55,000)
Balance as at 31 December 2020	8,024,521	20,587,993	5,663	1,633,710	11,934,956	492,808	268,532	72,268,676	115,216,859	11,691,908	126,908,767

NOTES TO THE FINANCIAL STATEMENTS

43. Contingent liabilities and commitments

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

As at 31 December	Note	Bank		Group	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Contingent liabilities	43.1	314,760,629	295,580,750	315,591,750	296,305,687
Commitments	43.2	175,725,812	69,519,348	182,645,676	75,854,268
Gross contingent liabilities and commitments		490,486,441	365,100,098	498,237,426	372,159,955
Less: Allowance for expected credit losses	43.3	(547,579)	(1,174,344)	(547,579)	(1,174,344)
Net contingent liabilities and commitments		489,938,862	363,925,754	497,689,847	370,985,611

43.1 Contingent liabilities

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Acceptances	53,034,225	110,542,802	53,034,225	110,542,802
Documentary credit	74,557,296	78,306,041	74,557,296	78,306,041
Guarantees	74,750,532	82,058,147	75,581,653	82,783,084
Forward exchange contracts	112,418,576	24,673,760	112,418,576	24,673,760
Total	314,760,629	295,580,750	315,591,750	296,305,687

43.2 Commitments

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Undrawn overdrafts and loans	175,725,812	69,519,348	182,645,676	75,854,268
	175,725,812	69,519,348	182,645,676	75,854,268

43.3 Movement in allowance for expected credit loss (ECL) based on exposure to credit risk

Bank and Group	2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	309,273	243,876	621,195	1,174,344
Net charge/(Reversal) for the year	(230,787)	(195,888)	(200,090)	(626,765)
Closing balance as at 31 December	78,486	47,988	421,105	547,579

NOTES TO THE FINANCIAL STATEMENTS

Bank and Group	2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	103,442	268,894	298,952	671,288
Net charge/(Reversal) for the year	205,831	(25,018)	322,243	503,056
Closing balance as at 31 December	309,273	243,876	621,195	1,174,344

43.4 Other capital commitments

Capital expenditure approved by the Board of Directors for which provisions has not been made in these Financial Statements amounted to;

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Approved and contracted for	703,878	905,881	703,878	918,589
Approved but not contracted for	131,000	550,308	131,000	1,509,457
	834,878	1,456,189	834,878	2,428,046

43.5 Assessment received by the Bank

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

Income tax

Income tax for the Years of Assessment 2010/11, 2011/12, 2012/13, 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 are respectively LKR 2,422.29 Mn. (ITA 13291100319V1), LKR 1,383.83 Mn. (ITA 14271100064V1), LKR 6,054.77 Mn. (ITA 15271100004V1), LKR 7,452.63 Mn. (ITA 16300500108V1), LKR 5,564.82 Mn. (ITA 170106000084V1), LKR 3,891.59 Mn. (201516002), LKR 3,523.21 Mn. (0201617002) and LKR 5,375.42 Mn. (0201718002).

Value added tax

Value added tax on financial services for the years 2012, 2013, 2014, 2015, 2016 and 2017 are respectively LKR 732.27 Mn. (VATFS/BFSU/2015/660), LKR 360.79 Mn. (VATFS/BFSU/2015/661), LKR 404.98 Mn. (VATFS/BFSU/2017/816), LKR 802.82 Mn. (VATFS/BFSU/2018/894), LKR 1,089.07 Mn. (VATFS/BFSU/2019/1008) and LKR 1,083.14 Mn. (7501718002).

Nation Building Tax

Nation Building Tax on financial services for the years 2014, 2015, 2016 and 2017 are respectively LKR 60.26 Mn. (NBTFB/BFSU/2017/086), LKR 130.32 Mn. (NBTFB/BFSU/2018/239), LKR 147.96 Mn. (NBTFB/BFSU/2019/442), LKR 147.96 Mn. (NBTFB/BFSU/2019/442) and LKR 144.42 Mn. (NBTFB/BFSU/2020/633,634,635 and 636)

NOTES TO THE FINANCIAL STATEMENTS

43.6 Litigation against the Bank and companies within the Group

In the normal course of business, the Bank is involved in various types of litigation, including litigation with borrowers who are in default under terms of their loan agreements. In certain circumstances, borrowers have asserted or threatened counter claims defences. The Bank is also contesting certain Labour Tribunal cases. In the opinion of management, based on its assessment and consultation with outside counsel, litigation which is currently pending against the Bank and the Group will not have a material impact on the financial condition or future operations of the Bank and the Group as a whole. The total damage claimed of litigation against the bank amounts to approximately LKR 8 Bn., of which details are given Below:

Zone	Region	LKR '000
Legal	Legal Department	472,400,000
Western I	Colombo South	3,000,000
Western II	Kalutara	1,200,000
Central	Kandy	331,131,900
	Matale	14,552,000
	Nuwara Eliya	1,500,000
Sabaragamuwa	Rathnapura	2,500,000
Eastern	Ampara	10,000,000
	Batticaloa	154,000
North Central	Anuradhapura	2,775,000
Southern	Hambantota	201,200,000
Uva	Badulla	4,000,000
Special Assets Unit/Corporate Banking Division		6,965,968,490
		8,010,381,390

44. Subsequent Events

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

45. Related party disclosures

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

45.1 Parent and the ultimate controlling party

People's Bank is a Sri Lankan Government owned Bank.

45.2 Key Management Personnel (KMPs) and their Close Family Members (CFMs)

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the Bank. Such key management persons include Chairman, Executive, and Non-Executive Directors, and Chief Executive Officer/General Manager of the Bank. Close family members of an individual are those family members who may be expected to influence, or to be influenced by, that individual in their dealings with the entity. They may include individual's domestic partner and children, children of the individual's domestic partner and dependants of the individual or the individual's domestic partner.

NOTES TO THE FINANCIAL STATEMENTS

45.2.1 Compensation of Key Management Personnel (KMPs)

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Short-term employee benefits	30,940	41,120
Post-employment pension	9,572	1,955
Termination benefits	28,869	18,052

45.2.2 Transactions with Key Management Personnel (KMPs)

For the year ended 31 December	2020 LKR '000	2019 LKR '000
a. Items in income statement		
Interest income	1,520	631
Interest expenses	6,372	1,525

As at 31 December	2020 LKR '000	2019 LKR '000
b. Items in statement of financial position		
Term loans	20,533	3,772
Overdrafts	15,588	–
Credit cards	1,238	18
Deposits	36,868	46,483

45.2.3 Transactions with Close Family Members (CFMs) of the Key Management Personnel (KMP)

For the year ended 31 December	2020 LKR '000	2019 LKR '000
a. Items in income statement		
Interest income	437	575
Interest expenses	185	137

As at 31 December	2020 LKR '000	2019 LKR '000
b. Items in statement of financial position		
Term loans	–	552
Overdrafts	–	829
Deposits	4,809	3,665

NOTES TO THE FINANCIAL STATEMENTS

45.3 Transactions with Group entities

The Group entities include the subsidiaries and associates of the Bank.

45.3.1 Transactions with subsidiaries, subsidiaries, and associate companies of the Bank

The aggregate amount of income and expenses arising from the transactions during the year, amount due to and due from the relevant related party and total contract sum of off-balance sheet transactions at the year end are summarised below:

For the year ended 31 December	Subsidiary companies of the Bank		Subsidiary companies of the Bank	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
a. Items in income statement				
Interest income	120,182	559,741	23,389	6,896
Interest expense	866,872	1,130,290	43,122	24,207
Dividend income	732,467	1,448,057	–	–
Other income	34,954	44,395	92,903	174,890
Other expenses	–	–	580,426	375,592

As at 31 December	Subsidiary companies of the Bank		Subsidiary companies of the Bank	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
b. Items in statement of financial position				
Assets				
Investments	1,932,931	1,200,464	–	–
Loans	–	3,726,233	129,319	–
Overdrafts	218,709	351,191	18,626	148,233
Assets backed securities	786,220	2,213,288	–	–
Other receivables	3,018	2,959	173,641	160,345
	2,940,878	7,494,135	321,586	308,578
Liabilities				
Deposits	8,473,458	3,624,440	705,640	884,441
Securities sold under repurchase agreements	6,247,581	9,611,891	–	–
Other payables	1,511	2,377	176,876	3,748
	14,722,549	13,238,709	882,516	888,190

As at 31 December	Subsidiary companies of the Bank		Subsidiary companies of the Bank	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
c. Off-balance sheet items				
Guarantees	19,100	33,300	–	–

NOTES TO THE FINANCIAL STATEMENTS

45.4 Transactions with Government of Sri Lanka (GOSL) and State Owned Enterprises (SOEs)

Transactions and arrangements entered in to by the Bank with the Government of Sri Lanka and State Owned Enterprises as follows:

For the year ended 31 December	2020 LKR '000	2019 LKR '000
a. Items in income statement		
Interest income	79,755,813	70,587,661
Other income	543,460	568,771
Interest expenses	6,431,387	20,931,841
Tax payments Inland Revenue Department – VAT, NBT and DRL	3,851,486	8,909,795
Income tax	7,051,737	6,740,501
Other taxes	632,897	1,704,090
As at 31 December		
b. Items in statement of financial position		
Assets		
Balances with CBSL	14,196,565	38,858,470
Investment in Government Securities	402,665,780	372,052,620
Loans and advances – Term loans	612,450,502	491,199,795
– Overdrafts	218,845,888	99,819,640
– Bills	154,647	566,754
	1,248,313,382	1,002,497,280
Liabilities		
CBSL borrowings	5,150,052	856,636
Deposits – Demand	27,310,447	19,888,975
– Savings	39,134,865	24,614,053
– Time	150,661,433	172,431,223
	222,256,797	217,790,886
As at 31 December		
c. Items in statement of changes in equity		
Dividends paid	219,690	219,690
Special levy	2,803,980	2,200,000

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	2020 LKR '000	2019 LKR '000
d. Off-balance sheet items		
Acceptances	46,535,867	106,091,506
Documentary credit	48,070,316	57,743,398
Guarantees	9,225,308	8,471,527
	103,831,491	172,306,431

45.5 Transactions with employment benefit plans for Bank's employees

Transactions and arrangements entered into by the post-employment benefit plans for Bank's employees are as follows:

45.5.1 Transactions with Pre-1996 Pension Trust Fund

For the year ended 31 December	2020 LKR '000	2019 LKR '000
a. Items in income statement		
Interest income	–	3,584
Other income	10	11
Interest expenses	4,751,348	4,585,629
Contribution made	1,949,053	1,307,059

As at 31 December	2020 LKR '000	2019 LKR '000
b. Items in statement of financial position		
Liabilities		
Deposits	32,625,609	24,503,881
Securities sold under repurchase agreements	3,822,532	6,211,539
Subordinated term debts	12,535,684	12,535,684

45.5.2 Transactions with Post-1996 Pension Fund

For the year ended 31 December	2020 LKR '000	2019 LKR '000
a. Items in income statement		
Interest expenses	686,535	722,595
Contribution made	520,492	121,841

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	2020 LKR '000	2019 LKR '000
b. Items in statement of financial position		
Liabilities		
Deposits	8,558,784	7,073,422

46. Fair value of financial instruments**46.1 Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

Determination of fair value and fair value hierarchy

All assets and liabilities for which fair value is disclosed in the Financial Statements are categorised using the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Valuation based on quoted market prices

Here the fair value is determined using the quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Valuation based on observable inputs

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

Level 3: Valuation based on significant unobservable inputs

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

46.2 Financial instruments recorded at fair value

Following descriptions show how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques which incorporates the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates.

Financial assets – Fair value through profit or loss

Financial instruments are classified as fair value through profit or loss consists of Government Securities, equity securities, unit trusts, and debt securities. Government Securities are valued using yield curve published by the Central Bank of Sri Lanka, and the Group uses quoted market prices in the active market for the valuation of quoted equities as at the reporting date.

Financial assets – Fair value through other comprehensive income

Financial assets – fair value through other comprehensive income are primarily consist of quoted and unquoted equities and debentures. These assets are valued using models that use both observable data and unobservable data. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions.

Property, plant and equipment

Free hold lands and buildings and buildings on leasehold lands are carried at revalued amount less any subsequent accumulated depreciation and impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

46.3 Assets measured at fair value – by level of the fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2020	Bank				Group			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets								
Derivative financial instruments								
Forward foreign exchange contracts and SWAPS	-	97,645	-	97,645	-	97,645	-	97,645
Financial assets – At fair value through profit or loss								
Treasury Bills and Bonds	46,162,420	-	-	46,162,420	46,162,420	-	-	46,162,420
Quoted – Equity securities	226,119	-	-	226,119	249,835	-	-	249,835
– Debt securities	36,488	-	-	36,488	36,488	-	-	36,488
– Unit trusts	-	-	-	-	6,279,846	-	-	6,279,846
Equity instruments at fair value through OCI								
Unquoted equity securities	-	-	815,900	815,900	-	-	815,910	815,910
Quoted equity securities	1,121,878	-	-	1,121,878	962,675	-	-	962,675
Debt instruments at fair value through OCI								
Treasury Bills and Bonds	318	-	-	318	267,696	-	-	267,696
Debt securities	2,631,913	-	-	2,631,913	2,631,913	-	-	2,631,913
Non-financial assets measured at fair value								
Land and building	-	-	26,785,146	26,785,146	-	-	34,172,900	34,172,900
	50,179,136	97,645	27,601,046	77,877,827	56,590,873	97,645	34,988,810	91,677,328
Financial liabilities								
Derivative financial instruments								
Forward foreign exchange contracts	-	976,486	-	976,486	-	976,486	-	976,486

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2019	Bank				Group			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets								
Derivative financial instruments								
Forward foreign exchange contracts and SWAPS	-	90,560	-	90,560	-	90,560	-	90,560
Financial assets – At fair value through profit or loss								
Treasury Bills and Bonds	79,323,896	-	-	79,323,896	79,323,896	-	-	79,323,896
Quoted – Equity securities	158,831	-	-	158,831	192,962	-	-	192,962
– Debt securities	31,841	-	-	31,841	31,841	-	-	31,841
Equity instruments at fair value through OCI								
Unquoted equity securities	-	-	842,646	842,646	-	-	842,656	842,656
Quoted equity securities	1,155,250	-	-	1,155,250	930,182	-	-	930,182
Debt instruments at fair value through OCI								
Treasury Bills and Bonds	318	-	-	318	318	-	-	318
Debt securities	2,572,749	-	-	2,572,749	2,572,749	-	-	2,572,749
Non-financial assets measured at fair value								
Land and building	-	-	20,817,692	20,817,692	-	-	28,143,107	28,143,107
	83,242,885	90,560	21,660,338	104,993,783	83,051,948	90,560	28,985,763	112,128,271
Financial liabilities								
Derivative financial instruments								
Forward foreign exchange contracts	-	59,748	-	59,748	-	59,748	-	59,748

NOTES TO THE FINANCIAL STATEMENTS

46.4 Movements in Level 3 assets measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value.

	Bank				Group					
	As at 1 January 2020 LKR '000	Total gains/(losses) recorded in profit or loss LKR '000	Total gains/ (losses) recorded in OCI LKR '000	Purchases/ (Sales) LKR '000	As at 31 December 2020 LKR '000	As at 1 January 2020 LKR '000	Total gains/(losses) recorded in profit or loss LKR '000	Total gains/ (losses) recorded in OCI LKR '000	Purchases/ (Sales) LKR '000	As at 31 December 2020 LKR '000
Financial assets										
Financial investments at fair value through OCI										
Unquoted equity securities	852,646	-	(44,116)	7,370	815,900	852,656	-	(44,116)	7,370	815,910
Total Level 3 financial assets	852,646	-	(44,116)	7,370	815,900	852,656	-	(44,116)	7,370	815,910
Financial liabilities										
Total Level 3 financial liabilities	-	-	-	-	-	-	-	-	-	-
Total net Level 3 financial assets/(liabilities)	852,646	-	(44,116)	7,370	815,900	852,656	-	(44,116)	7,370	815,910

	Bank				Group					
	As at 1 January 2019 LKR '000	Total gains/(losses) recorded in profit or loss LKR '000	Total gains/ (losses) recorded in OCI LKR '000	Purchases/ (Sales) LKR '000	As at 31 December 2019 LKR '000	As at 1 January 2019 LKR '000	Total gains/(losses) recorded in profit or loss LKR '000	Total gains/ (losses) recorded in OCI LKR '000	Purchases/ (Sales) LKR '000	As at 31 December 2019 LKR '000
Financial assets										
Financial investments at fair value through OCI										
Unquoted equity securities	671,881	-	170,765	10,000	852,646	671,914	-	170,765	9,977	852,656
Total Level 3 financial assets	671,881	-	170,765	10,000	842,646	671,914	-	170,765	9,977	852,656
Financial liabilities										
Total Level 3 financial liabilities	-	-	-	-	-	-	-	-	-	-
Total net Level 3 financial assets/(liabilities)	671,881	-	170,765	10,000	842,646	671,914	-	170,765	9,977	852,656

46.5 Fair value of assets and liabilities not measured at fair value

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (original maturity less than a year), it is assumed that the carrying amount approximate their fair values. This assumption is also applied to demand deposits, call deposits, and savings deposits without specific maturity.

NOTES TO THE FINANCIAL STATEMENTS

Fixed rate financial instruments

Loans and advances with fixed interest rates were fair valued using market rates end of the reporting period and other variable interest-bearing loans were considered as carrying value equal fair value. Conversely, fixed deposits with original tenor above one year and interest paid at maturity were discounted using current market rates offered to customers end of the reporting period.

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

	Bank				Group			
	2020		2019		2020		2019	
	Carrying amount LKR '000	Fair value LKR '000	Carrying amount LKR '000	Fair value LKR '000	Carrying amount LKR '000	Fair value LKR '000	Carrying amount LKR '000	Fair value LKR '000
Financial assets								
Cash and cash equivalents	71,461,242	71,461,242	50,703,158	50,703,158	72,899,208	72,899,208	51,594,638	51,594,638
Balances with central banks	14,196,565	14,196,565	38,858,470	38,858,470	14,196,565	14,196,565	38,858,470	38,858,470
Placements with banks	10,304,422	10,304,422	9,689,132	9,689,132	13,910,824	13,910,824	13,395,360	13,395,360
Loans and advances to banks	23,610,101	23,610,101	29,771,919	29,771,919	23,622,700	23,622,700	29,771,919	29,771,919
Loans and advances to other customers	1,635,579,343	1,635,579,343	1,310,150,137	1,309,702,865	1,776,231,315	1,776,231,315	1,460,497,766	1,460,050,494
Debt instruments measured at amortised cost	357,107,701	345,717,384	280,935,892	276,939,658	365,900,452	354,510,135	290,739,848	283,958,922
Financial liabilities								
Due to banks	164,489,623	164,489,623	207,484,446	207,484,446	172,439,795	172,439,795	219,434,075	219,434,075
Due to other customers	1,835,099,456	1,827,015,368	1,491,385,937	1,485,965,084	1,935,194,040	1,927,109,952	1,588,903,098	1,583,151,163
Other borrowings	36,362,434	36,362,434	17,324,960	17,324,960	36,362,434	36,362,434	16,289,502	16,289,502
Subordinated term debts	43,557,696	43,557,696	22,714,490	22,714,490	56,868,035	56,868,035	40,513,091	40,513,091

47. Financial reporting by segment**Accounting policy**

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, (including revenue and expenses that relate to transactions with other components of the Group) whose operating results are reviewed regularly by the chief operating decision-maker to make decisions about resources to be allocated to each segment and assess its performance, and for which discrete financial information is available.

The Group's segmental reporting is based on the following operating segments:

- Retail banking
- Corporate banking
- Treasury and Primary Dealer Unit (PDU)
- Leasing
- Insurance
- Finance
- Travels

NOTES TO THE FINANCIAL STATEMENTS

The following table presents income, profit, total assets, total liabilities of the Group's operating segments:

	Retail banking		Corporate banking		Treasury and PDU		Total Bank		Leasing	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Income from external customers										
Net interest income	37,263,351	43,718,159	11,020,329	9,104,933	12,238,237	8,244,248	60,521,917	61,067,340	13,349,357	16,865,072
Net fee and commission income	5,073,261	5,112,881	1,211,950	1,840,275	(43,907)	(43,321)	6,241,304	6,909,836	1,092,439	1,257,672
Net gain (loss) from trading	1,330,339	747,536	815,781	1,118,403	443,001	855,604	2,589,121	2,721,543	142,835	(45,969)
Others	1,050,633	1,249,605	98,697	137,448	4,000	49,712	1,153,330	1,436,765	21,745	(74,575)
Total operating income from external customers	44,717,584	50,828,181	13,146,757	12,201,059	12,641,331	9,106,243	70,505,672	72,135,484	14,606,376	18,002,200
Inter-segment revenue										
Net interest income	-	-	411,865	139,179	-	-	411,865	139,179	(407,056)	(133,640)
Net fee and commission income	-	-	-	-	-	-	-	-	-	-
Net gain (loss) from trading	-	-	-	-	-	-	-	-	-	-
Others	65,438	72,873	-	-	732,467	1,446,992	797,905	1,519,865	120,069	187,308
Total inter-segment revenue	65,438	72,873	411,865	139,179	732,467	1,446,992	1,209,770	1,659,044	(286,987)	53,669
Total operating income	44,783,022	50,901,054	13,558,622	12,340,238	13,373,798	10,553,235	71,715,442	73,794,528	14,319,389	18,055,868
Total incurred expenses	-	-	-	-	-	-	(50,488,762)	(54,128,344)	(12,515,537)	(13,299,862)
Share of profits/(loss) of associates (Net of tax)	-	-	-	-	-	-	-	-	-	-
Income tax expenses	-	-	-	-	-	-	(7,051,737)	(6,740,501)	(1,116,214)	(2,635,725)
Profit for the year	-	-	-	-	-	-	14,174,943	12,925,683	687,637	2,120,280
Non-controlling interest										
Profit for equity holders of the Bank										
Other comprehensive income net of tax										
Total comprehensive income										
Non-controlling interest										
Profit for the equity holders of the Bank										
Segment assets	1,051,000,534	695,608,681	702,910,359	613,817,952	476,207,772	563,979,584	2,230,118,665	1,873,406,218	172,303,777	177,441,772
Total assets	1,051,000,534	695,608,681	702,910,359	613,817,952	476,207,772	563,979,584	2,230,118,665	1,873,406,218	172,303,777	177,441,772
Segment liabilities	1,004,496,393	697,097,082	676,176,122	582,145,389	447,462,552	499,199,307	2,128,135,067	1,778,441,778	137,935,866	144,842,121
Total liabilities	1,004,496,393	697,097,082	676,176,122	582,145,389	447,462,552	499,199,307	2,128,135,067	1,778,441,778	137,935,866	144,842,121
Total equity and liabilities	1,051,000,534	695,608,681	702,910,359	613,817,952	476,207,772	563,979,584	2,230,118,665	1,873,406,218	172,303,777	177,441,772

NOTES TO THE FINANCIAL STATEMENTS

Insurance		Finance		Travels		Unallocated		Eliminations		Group	
2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
551,229	592,757	-	73,713	8,456	10,469	-	-	-	-	74,430,959	78,609,351
-	-	-	1,536	-	-	-	-	-	-	7,333,743	8,169,044
53,305	3,411	-	-	-	-	-	-	-	-	2,785,261	2,678,985
5,104,248	5,032,740	-	10,224	6,522	44,858	-	567,884	-	-	6,285,845	7,017,896
5,708,782	5,628,908	-	85,473	14,978	55,327	-	567,884	-	-	90,835,808	96,475,276
-	-	-	-	(4,810)	(5,539)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
201,742	252,608	-	-	-	-	-	-	(1,119,716)	(1,959,781)	-	-
201,742	252,608	-	-	(4,810)	(5,539)	-	-	(1,119,716)	(1,959,781)	-	-
5,910,524	5,881,516	-	85,473	10,170	49,788	-	567,884	(1,119,716)	(1,959,781)	90,835,808	96,475,276
(3,538,238)	(3,538,238)	-	(309,164)	(33,817)	(43,030)	-	(7,034)	387,249	512,789	(66,189,105)	(70,812,883)
-	-	-	-	-	-	-	-	-	-	878	(10,142)
(391,035)	(93,014)	-	(1,742)	1,891	(3,101)	-	-	-	-	(8,557,095)	(9,474,083)
1,981,251	2,250,265	-	(225,433)	(21,757)	3,657	-	560,850	(732,467)	(1,446,992)	16,090,486	16,178,168
-	-	-	-	-	-	-	-	-	-	860,628	1,193,331
-	-	-	-	-	-	-	-	-	-	15,229,858	14,984,837
-	-	-	-	-	-	-	-	-	-	(3,916,784)	(6,858,632)
-	-	-	-	-	-	-	-	-	-	12,173,702	9,319,536
-	-	-	-	-	-	-	-	-	-	886,248	1,187,037
-	-	-	-	-	-	-	-	-	-	11,287,454	8,132,499
10,567,361	9,592,640	-	-	92,601	104,271	-	-	(12,515,011)	(10,770,214)	2,400,567,393	2,049,774,687
10,567,361	9,592,640	-	-	92,601	104,271	-	-	(12,515,011)	(10,770,214)	2,400,567,393	2,049,774,687
5,968,788	5,937,850	-	-	19,717	9,071	-	-	(10,602,810)	(9,471,866)	2,261,456,628	1,919,758,954
5,968,788	5,937,850	-	-	19,717	9,071	-	-	(10,602,810)	(9,471,866)	2,261,456,628	1,919,758,954
10,567,361	9,592,640	-	-	92,601	104,271	-	-	(12,515,011)	(10,770,214)	2,400,567,393	2,049,774,687

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48. Non-cash items included in profit before tax

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Depreciation of property, plant and equipment	1,936,308	1,861,089	2,214,118	2,093,006
Amortisation of right-of-use asset	2,058,629	1,963,276	2,421,043	2,327,555
Amortisation of intangible assets	194,916	168,959	203,556	185,247
Fair value loss on revaluation of land and building	194,828	-	194,828	-
Depreciation of investment property	1,707	1,707	1,707	749
Impairment losses on financial assets	11,567,174	8,488,026	16,763,046	10,548,668
Other impairments	-	-	803,103	1,128,851
Profit on sale of fixed assets	(39,389)	(51,174)	(54,687)	(81,487)
Changes in derivative financial instruments	909,653	(1,379,636)	909,653	(1,379,636)
Changes in fair value of trading securities	183,629	(206,165)	183,629	(206,165)
Scrip dividend income	(732,467)	(509,506)	-	-
Share of (profits)/loss of associates	-	-	(878)	-
Premium amortisation of held-to-maturity investments	620,936	386,680	620,936	386,680
Interest expense on lease liabilities	719,619	810,108	898,675	915,328
Total	17,615,543	11,533,364	25,158,730	15,918,796

49. Changes in operating assets

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Held at fair value through profit or loss	32,905,912	(25,255,968)	27,493,748	(25,899,563)
Net increase in balance with Central Bank	24,661,905	12,757,326	24,661,905	12,757,326
Net increase in placement with Bank	(615,290)	(5,338,406)	(515,464)	(4,299,108)
Net increase in loans and advances to banks	6,161,818	2,395,502	6,149,219	2,779,738
Net increase in loans and advances to customers	(336,996,380)	(52,970,696)	(332,496,596)	(55,118,898)
Net increase/(decrease) in financial investments FVOCI	(79,237)	2,157,584	(351,284)	1,947,004
Change in other assets	7,860,240	(1,009,858)	7,367,169	(2,477,366)
Net increase in investment in associate	-	-	-	(531,085)
Total	(266,101,032)	(67,264,515)	(267,691,303)	(70,841,952)

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50. Changes in operating liabilities

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Changes in due to banks	(42,994,823)	69,453,026	(46,994,280)	47,186,214
Change in deposits from banks, customers, and debt securities issued	343,713,519	68,424,697	346,290,942	93,576,611
Change in other borrowings	19,037,474	(18,250,594)	20,072,931	(18,792,986)
Change in other liabilities	(7,317,225)	(7,882,846)	(7,833,855)	(8,401,465)
Total	312,438,945	111,744,283	311,535,738	113,568,374

51. Reclassification of comparative figures

Comparative figures have been adjusted to conform to the current year's presentation.

Certain reclassifications have been made to the prior year's Financial Statements to enhance comparability with the current year's Financial Statements. As a result, certain line items have been amended in the Income Statement and the related Notes to the Financial Statements.

The items so reclassified are as follows:

For the year ended 31 December 2019	Bank		Group	
	Previously reported LKR '000	After reclassification LKR '000	Previously reported LKR '000	After reclassification LKR '000
Gross income	197,039,605	199,728,985	235,529,351	238,218,731
Interest income	184,024,838	186,714,218	217,236,668	219,926,048
Net interest income	58,517,139	61,206,519	75,919,971	78,609,351
Total operating income	71,105,148	73,794,528	93,785,896	96,475,276
Impairment charge	(5,798,646)	(8,488,026)	(8,988,139)	(11,677,519)

Reason for the reclassification

In order to provide a more meaning full comparison the Bank grossed up the interest in suspense pertaining to non-performing loans to an extent that is allowed as per the Section 5.4.1 of SLFRS 9 – "Financial Instruments". For the avoidance of any doubt, the amount so grossed up is fully charged as impairment, hence it has no bearing on its net operating income.

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52. Financial risk management

Introduction

As a financial intermediary, the Bank is exposed to array of risks through its daily operations. The Bank's key risk exposures include credit, market, liquidity and operational risk. However, with the rapid technological innovations/IT-based products and solutions introduced by the Bank, due consideration should be given to Information Systems risk as well. Proactive identification of such risk exposures is of high importance to ensure the sustainability and profitability of the Bank. In response to an increasingly dynamic and competitive operating landscape, evolving risks and significant regulatory developments, there is an ongoing imperative to enhance risk management continuously across the Bank. A robust risk management framework in place supports the efficient management and mitigation of the said risk exposure.

Risk management framework

Risk is identified and managed as part of a Group-wide Risk Management Framework. The Group's Board of Directors has ultimate responsibility for the oversight of risk, determining risk appetite levels, formulating risk policies and ensuring the effectiveness of the risk management processes and procedures in place. The BIRMC (Board Integrated Risk Management Committee) assists the Board in the discharge of its risk-related duties and provides independent oversight of all risk related aspects by ensuring the adequacy and effectiveness of the implementation of risk governance structures, policy frameworks, standards and processes. Furthermore, the BECC (Board Executive Credit Committee), BAC (Board Audit Committee) and the BIBC (Board Investment Banking Committee) also support the Board in discharging its risk-related duties. Executive committees namely, the ALCO (Assets and Liabilities Management Committee) and the ORMC (Operational Risk Management Committee) play a critical role in ensuring the effective implementation of the Bank's Risk Management Processes.

The People's Bank Group Risk Management Framework forms the foundation for managing risk, and sets out the Group's risk universe, risk parameters and assigns Executive, and Board responsibility for the Management and oversight of risk and ensures that growth and risk considerations are appropriately balanced. Policies and systems associated with the Risk Management Framework are reviewed on a regular basis to factorise the adversities in market conditions, and the changes in Group's activities.

The framework is based on the three lines of defence model specifically, the Business Line, Risk Management and Internal Audit.

Risk appetite

The term "Risk Appetite" refers to the broad types and quantum of risk the People's Bank Group is willing to undertake in implementing its business strategy. It is expressed in the form of tolerance limits and risk trigger points across a range of variables. The Board of Directors has ultimate responsibility for setting the Risk Appetite of the Group and ensure that the exposures and risks are maintained within that approved levels.

Risk mitigation

As part of its overall risk management, the Bank obtains various types of collateral and establishes maximum prudential limits.

Risk management and credit control department

The Risk Management and Credit Control Department (RM and CC) holds overall executive responsibility for the Bank's risk management functions. It is headed by the Chief Risk Officer (DGM-Risk Management) who reports directly to BIRMC and operates independently of business units as well as profit and volume targets. Four separate units have been established under the RM and CC with specific responsibilities for handling Credit, Market, Operational and Information Systems Risks.

Credit risk

Credit risk is the risk of potential loss to the Bank, if a borrower or counterparty to a financial instrument fails to meet their financial, or contractual obligations, and arises principally from the Bank's loans and advances to customers/other banks, and investments in debt securities. In addition to the credit risk from direct funding exposures, the Bank would also be exposed to indirect liabilities such as letters of credit, guarantees etc., which would carry credit risk. Credit risk is composed of default risk/settlement risk, concentration risk, and counterparty risk.

The Board Executive Credit Committee (BECC) functions as the steering committee holding overall responsibility for implementing the Bank's Credit Risk Management Framework. The Credit Control Unit operates independently from the business lines and drives all credit risk management efforts. The primary responsibility for managing credit risk lies with the business units, complemented by independent review by the Credit Control Unit.

Key aspects of the Group's credit policies include delegated approval authority at multiple levels, a comprehensive credit appraisal mechanism which includes well-defined credit criteria and prudential limits in line with the defined risk appetite among others. Borrowers are assessed primarily on repayment capacity and

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internally developed risk rating scorecards and a 9-point rating scale is used for evaluating credit worthiness. Tailor-made scorecards have been developed for assessing corporates, SME borrowers financial institutions as well as retail borrowers. The internal credit rating models in place represent diverse risk factors and are able to predict the probability of default and loss given default.

Impairment assessment

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past or three instalments in arrears due on its contractual payments or when classified as non-performing loan (NPL) as per directions issued by the Central Bank of Sri Lanka (CBSL). The Bank considers treasury and interbank balances defaulted, and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

Individually-assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis if there is any objective evidence of a potential loss. The Bank has currently set individually significant threshold at Rupees twenty-five million, and every customer having an aggregate exposure above that limit is individually assessed for objective evidence of incurred loss. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows.

Collectively-assessed allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant, and for individually significant loans and receivables that have been assessed individually and found not to be impaired. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as loan types, industry codes, and level of arrears). The Bank applies a three-stage approach to measure expected credit losses (ECLs). Financial assets migrate through the following three stages based on the change in credit risk since initial recognition.

Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised. Bank determines 12-month ECL from customers whom are not significantly credit deteriorated (i.e. less than or equal to 30 days past due).

Stage 2: Lifetime ECL – not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognized. In consistent with the policies of the bank, significant deterioration is measured with the rebuttable presumption of 30 days past due other than the credit facilities categorised under Stage 3, in line with the requirements of the standard. Bank also has considered all restructured loans, which are restructured up to two times, other than credit facilities/exposures upgraded from a higher stage to a lower stage under stage 2 as per the guidance issued by the Central Bank.

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised, and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount. Bank determines credit facilities where contractual payment of customer is more than 90 days past due subject to the rebuttable presumption as stated in SLFRS 9 together with all NPL classifications as per Central Bank classification, all restructured loans which are restructured more than twice and all rescheduled loans other than credit facilities/exposures upgraded from a higher stage to a lower stage.

	2020 LKR '000	2019 LKR '000
Individually significant impaired loans		
Amortised cost	97,183,340	89,827,326
Allowances for impairment	(58,223,125)	(52,764,618)
Carrying amount as at 31 December	38,960,215	38,779,126
Collectively assessed loans		
Amortised cost	1,626,282,602	1,293,963,808
Allowances for impairment	(29,663,474)	(23,565,758)
Carrying amount as at 31 December	1,596,619,128	1,271,371,011

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PD estimation process

Probability of Default is the estimate of the likelihood of default over a given time horizon. PD estimation for loans and advances to other customers under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers. Accordingly, exposures are categorised among five groups based on the DPD as follows:

- Zero days past due
- 1-30 days past due
- 31-60 days past due
- 61-90 days past due
- Above 90 days past due

The exposure at default (EAD)

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default, and potential early repayments too. The Bank uses Credit Conversion Factors (CCF) which explains the historical utilisation of defaulted facilities at the time of default to calculate the EAD of revolving facilities in which customers have the ability to

increase their exposure. For non-revolving facilities, already utilised amount plus any accrued interest over same is considered as EAD.

Loss given default (LGD)

Loss given default (LGD) is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data, and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

For each year, closed contracts which have crossed the Above 90 days at-least once in their lifetime are considered. LGD will factor in all cash flows subsequent to the point of default until the full settlement of the loan. Virtually closed contracts are also added to this data set. Virtually closed contracts are active loans which have been long outstanding. A contract is determined to be virtually closed at the point the Bank determines that the cash flows have dried up.

Analysis of the total impairment for expected credit losses

As at 31 December 2020	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	17.4	888	2,816	–	3,704
Placements with banks	19.2	31,033	–	–	31,033
Loans and receivables to banks	22.2	101,674	–	–	101,674
Loans and receivables to other customers	23.2	6,419,888	3,533,121	77,933,591	87,886,600
Debt instruments at amortised cost	24.2	272,621	–	–	272,621
Debt instruments at fair value through OCI	26.2	327	296,009	–	296,336
Total impairment for expected credit losses		6,826,431	3,831,946	77,933,591	88,591,968

As at 31 December 2019	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	17.4	263	645	–	908
Placements with banks	19.2	1,583	–	–	1,583
Loans and receivables to banks	22.2	41,113	–	–	41,113
Loans and receivables to other customers	23.3	5,036,021	1,442,409	69,851,947	76,330,377
Debt instruments at fair value through OCI	26.2	242	296,009	–	296,251
Total impairment for expected credit losses		5,079,222	1,739,063	69,851,947	76,670,232

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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 31 December 2020	Expected credit loss on loans and advances LKR '000
Scenario A – Actual	
Base case – 30%, Upside – 30%, Downside – 40%	29,663,474
Scenario B	
Base case – 25%, Upside – 25%, Downside – 50%	29,879,364
Change in impairment allowance – Increase/(Decrease) – (B – A)	215,890

As at 31 December 2020

Scenario A – Actual	
Base case – 30%, Upside – 30%, Downside – 40%	29,663,474
Scenario B	
Base case – 35%, Upside – 35%, Downside – 30%	29,447,078
Change in impairment allowance – Increase/(Decrease) – (B – A)	(216,396)

As at 31 December 2019

As at 31 December 2019	Expected credit loss on loans and advances LKR '000
Scenario A – Actual	
Base case – 30%, Upside – 30%, Downside – 40%	22,592,797
Scenario B	
Base case – 25%, Upside – 25%, Downside – 50%	22,670,256
Change in impairment allowance – Increase/(Decrease) – (B – A)	77,459

As at 31 December 2019

Scenario A – Actual	
Base case – 30%, Upside – 30%, Downside – 40%	22,592,797
Scenario B	
Base case – 35%, Upside – 35%, Downside – 30%	22,516,929
Change in impairment allowance – Increase/(Decrease) – (B – A)	(75,868)

Analysis of inputs to the ECL model under multiple economic scenarios

The Bank obtains the data from third party sources such as CBSL, International Monetary Fund and/or World Bank in all instances where such projections are available. The following tables set out the key drivers of expected loss, and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2019 and 2020.

The tables show the values of key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

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As at 31 December 2020

Key drivers	ECL scenario	Assigned probabilities	2021	2022	2023	2024	2025	2026	2027
GDP growth	Best case	30%	4.73%	5.17%	6.29%	6.93%	7.11%	7.11%	7.11%
	Base case	30%	3.00%	3.94%	4.45%	4.94%	4.96%	4.96%	4.96%
	Worst case	40%	-2.91%	-1.39%	0.02%	1.33%	0.02%	0.02%	0.02%
Inflation (YoY average)	Best case	30%	4.28%	4.39%	4.50%	4.60%	4.36%	4.36%	4.36%
	Base case	30%	5.39%	5.86%	6.18%	6.01%	6.02%	6.02%	6.02%
	Worst case	40%	6.56%	6.71%	6.86%	7.02%	7.09%	7.09%	7.09%
Interest rate (PLR)	Best case	30%	6.24%	6.15%	5.99%	5.78%	5.58%	5.58%	5.58%
	Base case	30%	6.56%	6.63%	6.63%	6.57%	6.50%	6.50%	6.50%
	Worst case	40%	6.91%	7.17%	7.38%	7.51%	7.55%	7.55%	7.55%
Exchange rate – (US\$:LKR)	Best case	30%	189.5	193.6	197.7	201.9	206.3	210.7	215.2
	Base case	30%	197.1	209.3	222.3	236.1	250.8	266.4	282.9
	Worst case	40%	221.5	264.4	315.6	350.0	350.0	350.0	350.0
Unemployment (Percentage of labour force)	Best case	30%	5.37%	5.36%	5.34%	5.31%	5.28%	5.28%	5.28%
	Base case	30%	5.42%	5.43%	5.43%	5.42%	5.41%	5.41%	5.41%
	Worst case	40%	5.46%	5.50%	5.52%	5.54%	5.54%	5.54%	5.54%

As at 31 December 2019

Key drivers	ECL scenario	Assigned probabilities	2020	2021	2022	2023	2024	2025	2026
GDP growth	Best Case	30%	2.74%	2.77%	2.81%	2.85%	2.86%	2.86%	2.86%
	Base Case	30%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%
	Worst Case	40%	2.64%	2.63%	2.61%	2.60%	2.57%	2.57%	2.57%
Inflation (YoY average)	Best Case	30%	4.13%	4.09%	4.05%	4.00%	3.91%	3.91%	3.91%
	Base Case	30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%
	Worst Case	40%	4.42%	4.52%	4.63%	4.74%	4.79%	4.79%	4.79%
Interest rate (PLR)	Best Case	30%	9.49%	9.37%	9.25%	9.13%	8.86%	8.86%	8.86%
	Base Case	30%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
	Worst Case	40%	10.36%	10.68%	11.01%	11.35%	11.50%	11.50%	11.50%
Exchange rate – (US\$:LKR)	Best Case	30%	182.05	182.47	182.89	183.31	183.73	184.15	184.57
	Base Case	30%	192.27	203.52	215.44	228.05	241.41	250.00	250.00
	Worst Case	40%	217.16	250.00	250.00	250.00	250.00	250.00	250.00
Unemployment (Percentage of labour force)	Best Case	30%	4.87%	4.86%	4.86%	4.85%	4.83%	4.83%	4.83%
	Base Case	30%	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%
	Worst Case	40%	4.92%	4.94%	4.95%	4.97%	4.98%	4.98%	4.98%

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Collateral and other credit enhancements

Net exposure to credit risk

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. We adopt a stringent approach towards collateral valuation, and these are regularly reviewed and updated to ensure that valuations reflect market conditions. Relatively diverse collateral portfolio of the Bank mitigates the impact of potential price drops in a particular asset class.

The main types of collateral obtained are as follows:

- For commercial lending-charges over real estate properties, trade receivables, inventory, corporate, and personal guarantees.
- For retail lending-mortgage over residential properties, personal guarantees

The following tables show the maximum exposure and net exposure (net of fair value of any collaterals held) to credit risk by class of financial asset:

As at 31 December 2020	Maximum exposure to credit risk LKR '000	Net exposure LKR '000
Cash and cash equivalents	71,461,242	25,678,690
Placements with banks	10,304,422	10,304,422
Derivative financial instruments	97,645	97,645
Financial assets at fair value through profit or loss	46,425,027	46,425,027
Loans and receivables to banks	23,610,101	12,460,363
Loans and receivables to other customers	1,635,579,343	501,488,775
Equity instruments at fair value through OCI	1,937,778	1,937,778
Debt instruments at fair value through OCI	2,632,231	2,632,231
Debt instruments measured at amortised cost	357,107,701	357,107,701
Total	2,149,155,490	958,132,632

As at 31 December 2019	Maximum exposure to credit risk LKR '000	Net exposure LKR '000
Cash and cash equivalents	50,703,158	2,067,573
Placements with banks	9,689,132	9,689,132
Derivative financial instruments	90,560	90,560
Financial assets at fair value through profit or loss	79,514,568	79,514,568
Loans and receivables to banks	29,771,919	11,392,437
Loans and receivables to other customers	1,310,150,137	452,112,892
Equity instruments at fair value through OCI	1,997,896	1,997,896
Debt instruments at fair value through OCI	2,573,067	2,573,067
Debt instruments measured at amortised cost	280,935,892	280,935,892
Total	1,755,737,197	840,374,017

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Concentration of credit risk

Concentration risk stems from high lending exposure to a particular sector, product, region or customer/group. The Bank's risk appetite clearly defines exposure limits for particular sectors and products and such limits are reviewed and modified in the context of emerging risks and opportunities presented by the operating landscape. In addition to adherence to the Single Borrower Limit, the Bank also uses Herfindahl-Hirschman Index (HHI) to monitor and control concentrations. These limits are monitored by the Risk Management Department, BIRMC and Board on a regular basis.

Adherence to credit concentration risk limits

	Q4-2020	HHI threshold
Individual customer (with GOSL)	0.13	
Individual customer (with out GOSL)	0.02	0.15
Industry segment (with GOSL)	0.21	
Industry segment (with out GOSL)	0.11	0.2

An analysis of risk concentration by industry for the financial assets is given below:

As at 31 st December 2020	Government	Commercial	Financial	Agricultural
	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets				
Cash and cash equivalents	-	-	71,464,946	-
Balances with Central Bank of Sri Lanka	14,196,565	-	-	-
Placement with banks	-	-	10,335,455	-
Derivative financial instruments	-	-	97,645	-
Financial assets – at fair value through profit and loss	46,162,420	108,662	-	36,488
Loans and receivables to banks	12,460,363	-	11,251,412	-
Loans and receivables to other customers	844,801,266	126,401,392	21,370,178	12,115,009
Debt instruments measured at amortised cost	357,380,322	-	-	-
Equity instruments at fair value through OCI	-	439,750	1,079,652	-
Debt instruments at fair value through OCI	318	2,376,803	255,110	-
Total	1,275,001,254	129,326,607	115,854,398	12,151,497

As at 31 st December 2019	Government	Commercial	Financial	Agricultural
	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets				
Cash and cash equivalents	-	-	50,704,066	-
Balances with Central Bank of Sri Lanka	38,858,470	-	-	-
Placement with banks	-	-	9,690,715	-
Derivative financial instruments	-	-	90,560	-
Financial assets – at fair value through profit and loss	79,323,896	82,295	-	31,841
Loans and receivables to banks	11,392,437	-	18,420,595	-
Loans and receivables to other customers	615,415,952	136,416,301	17,020,127	13,183,637
Debt instruments measured at amortised cost	280,935,892	-	-	-
Equity instruments at fair value through OCI	-	488,611	1,188,729	-
Debt instruments at fair value through OCI	318	2,497,319	75,430	-
Total	1,025,926,965	139,484,526	97,190,222	13,215,478

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Industrial	Tourism	Housing and property development	Consumption	Services	Other	ECL	Total
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
-	-	-	-	-	-	(3,704)	71,461,242
-	-	-	-	-	-	-	14,196,565
-	-	-	-	-	-	(31,033)	10,304,422
-	-	-	-	-	-	-	97,645
40,418	-	-	-	77,038	-	-	46,425,027
-	-	-	-	-	-	(101,674)	23,610,101
30,517,974	23,975,431	350,728,450	272,989,118	12,087,949	28,479,174	(87,886,599)	1,635,579,343
-	-	-	-	-	-	(272,621)	357,107,701
271	-	16	-	418,089	-	-	1,937,778
-	-	-	-	-	-	-	2,632,231
30,558,663	23,975,431	350,728,467	272,989,118	12,583,076	28,479,174	(88,295,631)	2,163,352,055

Industrial	Tourism	Housing and property development	Consumption	Services	Other	ECL	Total
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
-	-	-	-	-	-	(908)	50,703,158
-	-	-	-	-	-	-	38,858,470
-	-	-	-	-	-	(1,583)	9,689,132
-	-	-	-	-	-	-	90,560
17,511	-	17	-	59,008	-	-	79,514,568
-	-	-	-	-	-	(41,113)	29,771,919
31,341,508	22,725,151	272,133,405	242,128,454	11,441,125	21,985,472	(73,640,997)	1,310,150,137
-	-	-	-	-	-	-	280,935,892
-	-	-	-	320,556	-	-	1,997,896
-	-	-	-	-	-	-	2,573,067
31,359,019	22,725,151	272,133,422	242,128,454	11,820,689	21,985,472	(73,684,601)	1,804,284,799

NOTES TO THE FINANCIAL STATEMENTS

Stress testing

i. Increase in NPL

	Min Req ^t – 2020	Actual as at 31 December 2020	Minor	Moderate	Major
Magnitude of shock (%)	–	–	5	10	20
Total NPL (LKR Mn.)	–	53,744	–	–	–
Increase in NPL (LKR Mn.)	–	–	2,687	5,374	10,749
Increase in provisions (LKR Mn.)	–	–	1,752	3,504	7,009
Tax adjusted impact on profit and loss (LKR Mn.)	–	–	1,051	2,103	4,205
Revised CAR %					
Tier I capital as a percentage of RWA (%)	8.50	9.53	9.40	9.28	9.02
Total capital as a percentage of RWA (%)	12.50	15.47	15.35	15.22	14.97

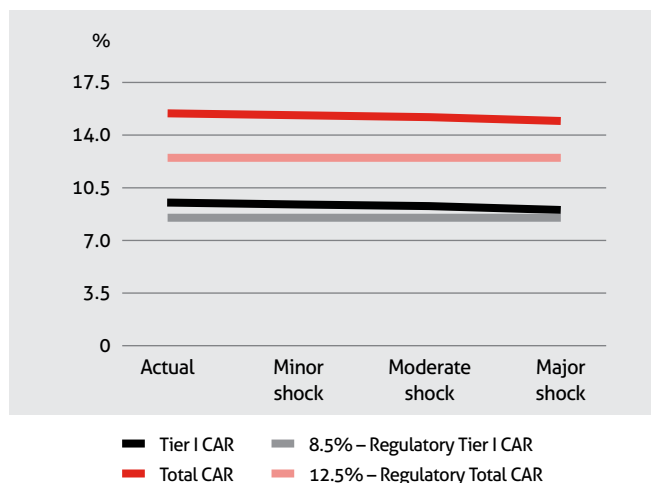
*Calculation is based on CBSL loan loss provisioning.

ii. Negative shifts in NPL categories

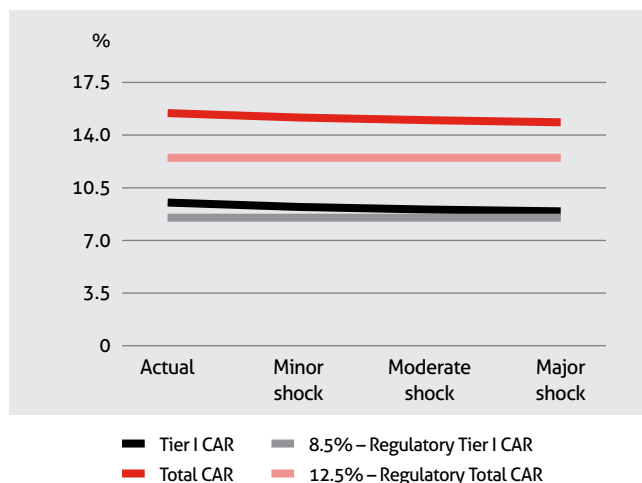
	Min Req ^t – 2020	Actual as at 31 December 2020	Minor	Moderate	Major
Magnitude of shock (%)	–	–	50	80	100
Total NPL (LKR Mn.)	–	53,744	–	–	–
Increase in provisions after shift in NPL categories (LKR Mn.)	–	–	4,229	6,767	8,458
Tax adjusted impact on profit and loss (LKR Mn.)	–	–	2,537	4,060	5,075
Revised CAR%					
Tier I capital as a percentage of RWA (%)	8.50	9.53	9.22	9.04	8.92
Total capital as a percentage of RWA (%)	12.50	15.47	15.17	14.99	14.86

*Calculation is based on CBSL loan loss provisioning.

EFFECT OF INCREASE IN NPLs ON CAR



EFFECT OF NEGATIVE SHIFTS IN NPL CATEGORIES ON CAR



NOTES TO THE FINANCIAL STATEMENTS

iii. Fall in forced sale value (FSV) of mortgaged collateral

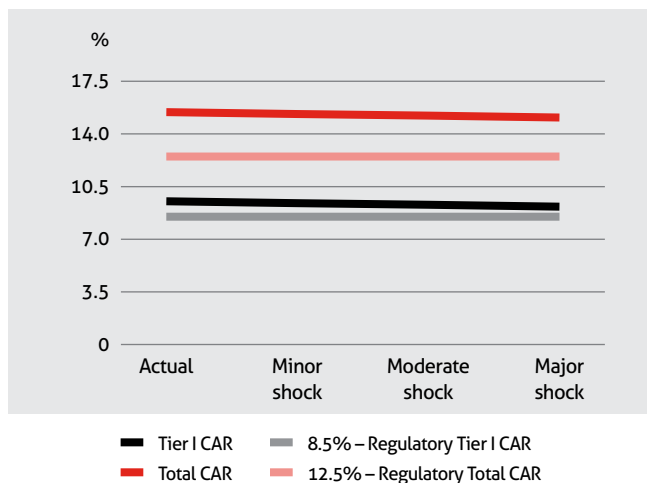
	Min Reqt – 2020	Actual as at 31 December 2020	Minor	Moderate	Major
Magnitude of shock (%)	–	–	5	10	15
FSV of mortgaged collateral (LKR Mn.)	–	33,694	–	–	–
Revised FSV (LKR Mn.)	–	–	32,009	30,325	28,640
Loan Loss Provision (LLP) (LKR Mn.)	–	20,036	–	–	–
Increase in Loan Loss Provision (LLP) (LKR Mn.)	–	–	1,685	3,369	5,054
Tax adjusted impact on profit and loss (LKR Mn.)	–	–	1,011	2,022	3,032
Revised CAR%					
Tier I capital as a percentage of RWA (%)	8.50	9.53	9.41	9.29	9.16
Total capital as a percentage of RWA (%)	12.50	15.47	15.35	15.23	15.11

*Calculation is based on CBSL loan loss provisioning.

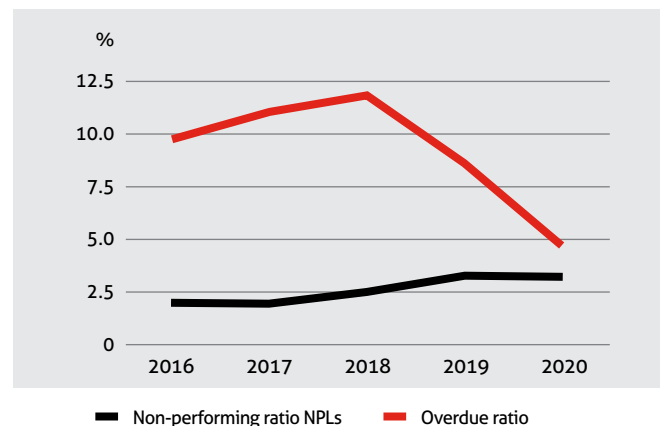
Credit quality analysis

Credit indicator	2020 %	2019 %	2018 %	2017 %
Non-performing ratio NPLs	3.2	3.3	2.5	1.9
Overdue ratio percentage	4.70	8.64	11.88	11.0
Provision coverage	64.5	60.0	72.3	97.5
Industry average NPLs	4.9	4.7	3.4	2.5

EFFECT OF FALL IN FSV OF MORTGAGED COLLATERAL ON CAR



ANALYSIS OF NPL AND OVERDUE RATIO



NOTES TO THE FINANCIAL STATEMENTS

Liquidity risk

Liquidity risk is the potential loss of earnings/erosion of capital arising from the inability to meet the Bank's contractual financial obligations as and when they fall due. Banks are vulnerable to liquidity and solvency problems resulting from asset and liability mismatches. The management of such risks are a vital element of the Bank's operations.

The Bank's Liquidity Risk Management Framework aims to assess/quantify and ensure the availability of funds required to meet Bank's contractual obligations at appropriate times. This is ensured under both normal and stressed conditions. The Bank's Treasury is entrusted to manage the liquidity risk and the Risk Management Department ensures same by monitoring the adherence to set limits/regulatory ratios etc; and performing other related analysis. ALCO on the other hand, oversee the management of same by continuously monitoring the Bank's liquidity position to ensure that compliance to internal targets as well as regulatory requirements is met.

The Bank measures liquidity through the dual approaches of flow and stock. The flow method measures liquidity through analysing the mismatch between inflows and outflows in various time bands based on the maturity of assets and liabilities. The stock method measures liquidity in terms of a set of key ratios such as loans to deposit ratio, commitments ratio (unutilised portion of overdrafts/unutilised inter-bank lines), statutory liquid asset ratio and cumulative mismatches.

Maturity profile of assets and liabilities as at 31 December 2020

	Up to 3 months LKR '000	3-12 months LKR '000	1-3 years LKR '000	3-5 years LKR '000	Over 5 years LKR '000	Total	
						2020 LKR '000	2019 LKR '000
Assets							
Cash and cash equivalents	71,461,242	-	-	-	-	71,461,242	50,703,158
Balances with Central Bank of Sri Lanka	3,624,344	5,110,281	1,478,038	1,284,532	2,699,370	14,196,565	38,858,470
Placements with banks	10,304,422	-	-	-	-	10,304,422	9,689,132
Derivative with banks	97,645	-	-	-	-	97,645	90,560
Other financial assets held for trading	1,445,543	44,979,484	-	-	-	46,425,027	79,514,568
Loans and receivables to banks	4,367,843	5,885,529	9,702,760	2,913,842	740,127	23,610,101	29,771,919
Loans and receivables to other customers	302,580,377	407,717,414	139,502,324	201,855,139	583,924,089	1,635,579,343	1,310,150,137
Debt instrument measured at amortised cost	66,057,123	89,049,915	30,455,121	171,545,542	-	357,107,701	280,935,892
Financial investments – Available for sale	570,009	-	-	-	-	4,570,009	4,570,963
Investments in subsidiaries	-	-	-	-	1,937,881	1,937,881	1,205,414
Goodwill and intangible assets	-	-	-	-	702,181	702,181	700,875
Property, plant and equipment	-	-	-	-	38,405,839	38,405,839	34,310,028
Investment properties	-	-	-	-	1,261,338	1,261,338	1,263,045
Other assets	20,038,910	2,160,123	577,855	1,245,224	437,259	24,459,371	31,642,057
Total assets 2020	484,547,457	554,902,746	181,716,098	378,844,280	630,108,084	2,230,118,665	-
Total assets 2019	402,518,479	497,201,748	200,324,145	303,301,399	470,060,448	-	1,873,406,218

NOTES TO THE FINANCIAL STATEMENTS

	Up to 3 months LKR '000	3-12 months LKR '000	1-3 years LKR '000	3-5 years LKR '000	Over 5 years LKR '000	Total	
						2020 LKR '000	2019 LKR '000
Liabilities							
Due to banks	155,097,044	9,392,579	-	-	-	164,489,623	207,484,446
Derivative with banks	976,486	-	-	-	-	976,486	59,748
Due to other customers	468,495,900	660,573,424	191,056,549	166,043,289	348,930,295	1,835,099,456	1,491,385,937
Other borrowings	34,286,090	2,076,344	-	-	-	36,362,434	17,324,960
Current tax liabilities	6,608,202	-	-	-	-	6,608,202	3,775,283
Deferred tax liabilities	-	-	-	-	-	-	1,071,797
Other liabilities	22,056,428	15,382,891	3,159,914	441,937	-	41,041,170	34,625,117
Subordinated term debts	-	-	12,535,684	27,522,722	3,499,290	43,557,696	22,714,490
Stated capital	-	-	-	-	12,201,998	12,201,998	12,201,998
Statutory reserve fund	-	-	-	-	8,024,521	8,024,521	7,315,774
Other reserve	-	-	-	-	32,859,237	32,859,237	27,368,542
Retained earnings	-	-	-	-	48,897,842	48,897,842	48,078,126
Total liabilities 2020	687,520,150	687,425,237	206,752,147	194,007,947	454,413,183	2,230,118,665	-
Total liabilities 2019	1,061,271,106	671,225,577	16,134,710	6,024,097	118,750,727	-	1,873,406,218
NET 2020	(202,972,693)	(132,522,492)	(25,036,049)	184,836,333	175,694,901	-	-
NET 2019	(658,752,627)	(174,023,829)	184,189,435	297,277,301	351,309,720	-	-
Total equity and liabilities 2020	484,547,457	554,902,746	181,716,098	378,844,280	630,108,084	2,230,118,665	-
Total equity and liabilities 2019	402,518,479	497,201,748	200,324,145	303,301,399	470,060,448	-	1,873,406,218

Maturity profile of the undiscounted cash flows of financial liabilities as at 31 December 2020

Financial liabilities	On demand LKR '000	Less than 3 months LKR '000	3-12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Due to banks	1,425,828	65,547,464	59,132,298	-	48,546,904	174,652,494
Derivative financial instruments	-	113,349,038	5,726,151	-	-	119,075,188
Due to other customers	754,489,125	436,066,565	600,930,992	43,928,115	-	1,835,414,798
Other borrowings	-	20,079,884	8,292,325	8,004,351	-	36,376,561
Subordinated term debts	-	-	4,799,343	52,560,310	4,279,065	61,638,718
Total undiscounted financial liabilities	755,914,953	635,042,951	678,881,109	104,492,776	52,825,969	2,227,157,759

NOTES TO THE FINANCIAL STATEMENTS

Maturity profile of the undiscounted cash flows of financial liabilities as at 31 December 2019

Financial liabilities	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Due to banks	1,635,833	47,867,087	160,170,739	–	–	209,673,659
Derivative financial instruments	–	7,535,897	4,739,603	–	–	12,275,499
Due to other customers	569,733,559	483,529,612	644,578,447	28,304,288	–	1,726,145,906
Other borrowings	–	11,867,084	2,130,408	3,374,677	–	17,372,169
Subordinated term debts	–	–	2,796,093	27,072,370	4,700,098	34,568,560
Total undiscounted financial liabilities	571,369,392	550,799,680	814,415,289	58,751,335	4,700,098	1,995,335,696

Liquidity shock – Fall in liquid liability (LKR)

DBU	Balance as at 31 December 2020	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock (%)	–	5	10	15
Liquid assets (LKR Mn.)	463,931	463,931	463,931	463,931
Total liabilities (LKR Mn.)	1,811,649	1,811,649	1,811,649	1,811,649
Fall in the liabilities (LKR Mn.)	–	90,582	181,165	271,747
Revised liquid liabilities (LKR Mn.)	–	1,721,067	1,630,484	1,539,902
Revised liquid assets (LKR Mn.)	–	373,349	282,766	192,184
Liquid asset ratio after shock (%)	25.61	21.69	17.34	12.48

Liquidity shock – Fall in liquid liability (USD)

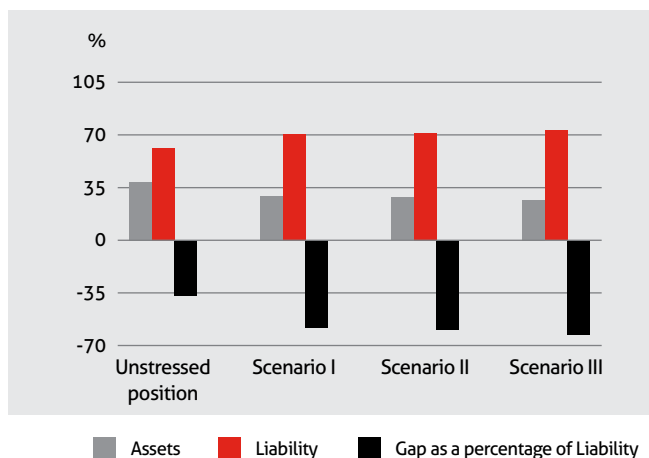
OBU	Balance as at 31 December 2020	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock (%)	–	5	10	15
Liquid assets (USD '000)	1,165,688	1,165,688	1,165,688	1,165,688
Total liabilities (USD '000)	1,927,882	1,927,882	1,927,882	1,927,882
Fall in the liabilities (USD '000)	–	96,394	92,788	289,182
Revised liquid liabilities (USD '000)	–	1,831,488	1,735,094	1,638,700
Revised liquid assets (USD '000)	–	1,069,294	972,900	876,506
Liquid asset ratio after shock (%)	60.46	58.38	56.07	53.49

Stress test hot money and retail money withdrawal

	Up to 1 month %	1-3 months %	3-6 months %	6-9 months %	9-12 months %	1-3 years %	3-5 years %	Over 5 years %
Limit	-20	-40	-50	-50	-25	-20	-10	-5
Unstressed	-37	-23	-25	-32	-33	-23	-14	0
Scenario I	-58	-43	-38	-35	-35	-24	-15	0
Scenario II	-60	-44	-39	-35	-35	-24	-16	0
Scenario III	-64	-48	-41	-37	-35	-25	-16	0

NOTES TO THE FINANCIAL STATEMENTS

EFFECT OF HOT MONEY/RETAIL FUND WITHDRAWALS ON GAP IN UP TO ONE MONTH TIME BAND



Market risk

Market risk is potential losses arising from changes in earnings, market or future cash flows of a portfolio of financial instruments resultant from adverse movements in market variables such as interest rates, share prices, foreign exchange rates and bond and commodity prices. Most of the Bank’s operations are exposed to at least one or more elements of market risk. The market risk stems primarily from the interest rate risk of its trading and non-trading books and from exposure to gold prices due to its pawning portfolio.

At Board level, exposure to market risk is monitored by the BIRMC which is also responsible for providing recommendations to the Board on the Bank’s Market Risk Management Framework, policies and risk appetite limits. The ALCO is vested with the responsibility of implementing the Market Risk Management Framework at an executive level and ensures that the Bank’s market risk exposures are within the defined risk appetite. Policies governing the Bank’s market risk include Treasury policy and policy on stress testing. These frameworks collectively provide guidance on the systems, procedures, tools and techniques for the identification, assessment, mitigation, monitoring and reporting on all market related risks. The policies are reviewed and updated regularly in view of emerging market risks. The management of market risk is entrusted to the Bank’s Treasury, and Risk Management ensures the same through its monitoring and analysis.

The principal tool used to measure and control market risk exposure within the Bank’s trading portfolio is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The

VaR model used by the Bank is based on a 99% confidence level and assumes a 1 day holding period. The VaR model used is based mainly on variance co variance method.

The Bank uses VaR limits to monitor and manage the market risk, specifically foreign exchange and interest rate. The overall structure of VaR limits is subject to review and approval by BIRMC. VaR limits are allocated to trading portfolios. VaR is measured and monitored against it’s limits at least daily by the Treasury Middle Office, which is attached to the Risk Management Department.

Interest rate risk

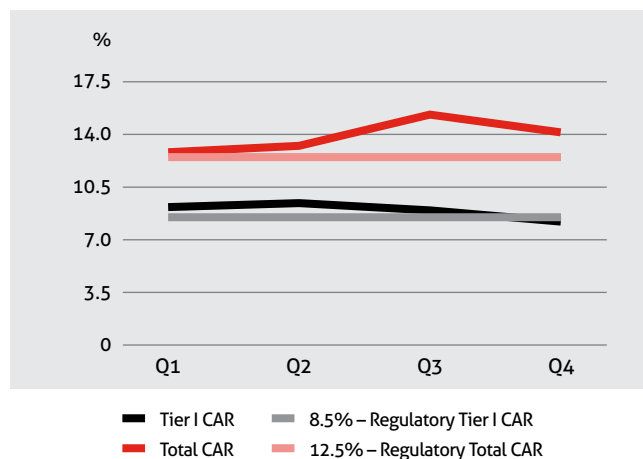
Interest rate risk is the potential loss to earnings and capital resulting from the Bank’s exposure to interest rate sensitive assets. The market value of such assets fluctuates in line with changes in interest rates and credit spreads. The Bank’s exposure to interest rate risk arises from its lending portfolio, trading securities and deposit liabilities.

Techniques used to measure interest rate risk include Duration Gap Analysis, VaR and Earnings at Risk. Rate sensitive assets and liabilities are mapped into time buckets based on their maturity period, in order to ascertain the duration gap and overall exposure to interest rate risk.

Stress test for interest rate risk

Revised CAR	Q1 %	Q2 %	Q3 %	Q4 %
Tier 1 CAR	9.16	9.41	8.94	8.22
Total CAR	12.84	13.26	15.30	14.16

EFFECT OF 1% INTEREST RATE INCREASE ON CAR



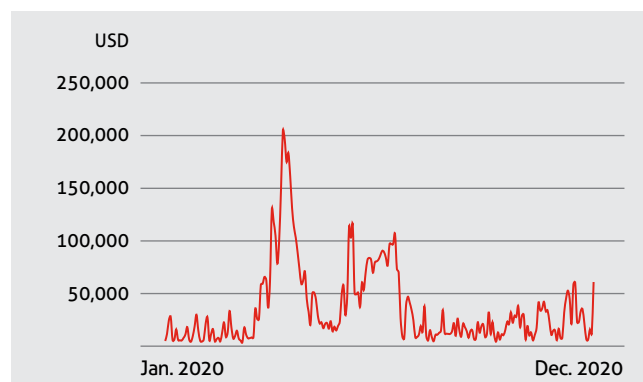
NOTES TO THE FINANCIAL STATEMENTS

Foreign exchange risk

Foreign exchange risk (FOREX) is the potential impact to earnings and/or capital stemming from adverse fluctuations in exchange rates. Such exposure of the Bank stems from proprietary trading and from undertaking transactions denominated in foreign currency namely, import/export transactions and remittances etc.

The Bank also conducts VaR calculations and stress testing on the portfolios subject to forex risk. Parallel VaR calculations are performed by the Bank's Treasury Management System (based on Finacle) and the Bloomberg system. Stress testing is performed by applying rate shocks in order to gauge the potential impact on the Bank's profitability and capital adequacy levels.

DAILY VALUE AT RISK FOR YEAR 2020



Exchange rate shock stress test

	Min Req ^t – 2020	Actual as at 31 December 2020	Minor	Moderate	Major
Magnitude of shock (%)	–	–	5	10	15
Revised CAR%					
Tier 1 capital as a percentage of RWA (%)	8.50	9.53	9.51	9.49	9.48
Total capital as a percentage of RWA (%)	12.50	15.47	15.46	15.44	15.42

Equity risk

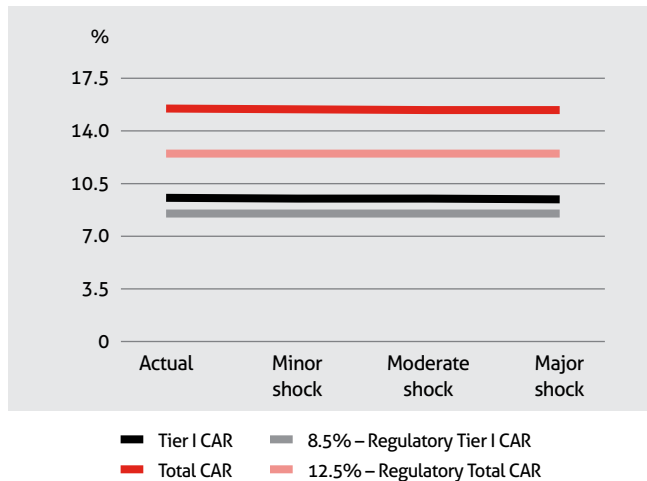
Equity risk arises from exposures to changes in fluctuations in the value of equity investments held by the Bank. This arises primarily from its fair value through profit or loss and fair value through OCI investment portfolio and excludes strategic investments by the Bank in subsidiaries.

The BIBC (Board Investment Banking Committee) is responsible for formulating all investment-related policies and ensuring that the Bank's investment risks are managed in line with its defined risk appetite. The Board approved Investment Banking Policy Manual clearly articulates the procedures, tools, and techniques for managing equity risk as well as volume, and stop loss limits.

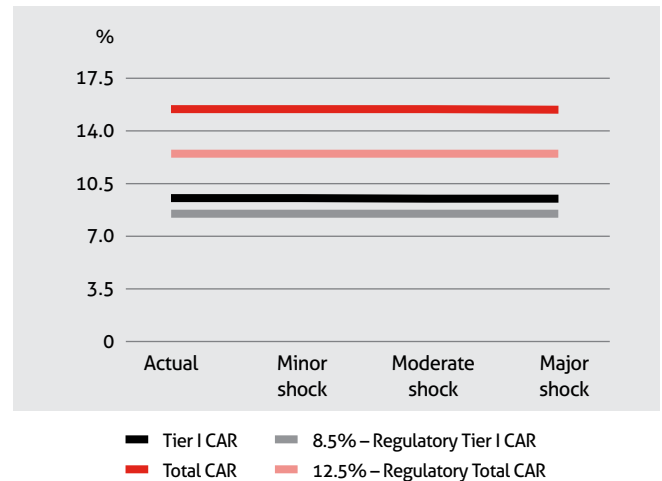
	Min Req ^t – 2020	Actual as at 31 December 2020	Minor	Moderate	Major
Magnitude of shock (%)	–	–	5	10	20
Revised CAR%					
Tier 1 capital as a percentage of RWA (%)	8.50	9.53	9.52	9.51	9.50
Total capital as a percentage of RWA (%)	12.50	15.47	15.47	15.46	15.45

NOTES TO THE FINANCIAL STATEMENTS

EFFECT OF ADVERSE MOVEMENTS IN EXCHANGE RATES ON CAR



EFFECT OF ADVERSE MOVEMENTS IN EQUITY PRICES ON CAR



Operational risk

Operational risk is the risk of losses arising from failed internal processes, systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Operational risks exist in the natural course of business activities, products and processes.

The Bank’s Operational Risk Management Framework clearly articulates the policies, structures and processes in place to manage the different types of operational risk exposures. The Board of Directors, supported by the BIRMC is responsible for formulating policy and ensuring the robustness of the Operational Risk Management Framework. Loss events are recorded and periodically reported through the Risk Management Unit to the ORMC (Operational Risk Management Committee). Meanwhile, Internal Audit also provides assurance to the Board on the effectiveness on the operational risk management processes in place.

Capital management

The Bank’s capital management framework has been designed taking into consideration regulatory requirements on capital as well as future growth aspirations and funding options available to the Bank.

The Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions based on the Basel framework. Since 1 July 2017, the Bank is required to comply with Basel III Guidelines. According to Basel III framework the Bank is required to maintain a CAR of not less than 8.5% with core capital (Tier 1) and a minimum overall CAR of 12.5% as at 31 December 2020. (2019 minimum Tier 1 – 9.5% and minimum overall – 13.5%).

NOTES TO THE FINANCIAL STATEMENTS

The details of the computation of the capital and the ratios as at 31 December 2019 and 31 December 2020 are given below for the Bank and Group:

As at 31 December	Bank				
	Balance		Risk weight	Risk weighted balance	
	2020 LKR '000	2019 LKR '000	%	2020 LKR '000	2019 LKR '000
Assets					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	978,894,070	745,914,337	0-20	50,625,977	30,730,516
Claims on foreign sovereigns and their central banks	-	-	0-150	-	-
Claims on Public Sector Entities (PSEs)	131,502,915	136,949,488	20-150	78,134,064	78,781,418
Claims on official entities and Multilateral Development Banks (MDBs)	-	-	0-150	-	-
Claims on banks	28,412,420	12,713,010	20-150	11,701,070	4,079,104
Claims on financial institutions	4,454,573	10,321,902	20-150	2,708,497	5,369,002
Claims on corporates	140,063,928	147,419,649	20-150	134,025,919	132,150,592
Retail claims	442,421,693	352,798,975	75-100	348,331,918	283,212,677
Claims secured by gold	174,814,192	162,582,929	20-100	17,229	31,908
Claims secured by residential property	62,191,796	62,007,332	50-100	31,095,898	31,003,666
Claims secured by commercial real estate	-	-	100	-	-
Non-performing assets (NPAs)	25,147,190	23,361,467	50-150	30,241,399	28,482,214
Higher risk categories	816,645	793,542	150-250	2,041,612	1,983,856
Cash items	46,023,864	49,252,071	0-20	47,522	123,116
Property, plant and equipment	39,667,178	35,573,076	100	39,667,178	35,573,076
Other assets	15,017,158	19,154,128	100	15,017,158	19,154,128
Total	2,089,427,622	1,758,841,906		743,655,441	650,675,273

Above risk weighted assets include the credit equivalent of off-balance Sheet exposures illustrated below:

Off-balance sheet exposures

Off-balance sheet exposures	Bank				
	Balance		Credit conversion factor %	Credit equivalent	
	2020 LKR '000	2019 LKR '000		2020 LKR '000	2019 LKR '000
Instruments					
Direct credit substitutes	20,991,955	21,526,462	100	20,991,955	21,526,462
Transaction-related contingencies	41,129,235	51,641,885	50	20,564,618	25,820,942
Short-term self-liquidating trade-related contingencies	99,190,395	154,356,301	20	19,838,079	30,871,260
Sale and repurchase agreements and assets sale with recourse where the credit risk remains with the Bank	-	-	100	-	-
Obligations under an ongoing underwriting agreement	-	-	50	-	-
Other commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time	-	-	0-20	-	-
Commitments with an original maturity up to one year	65,568,079	35,011,384	20	13,113,616	7,002,277
Other commitments with an original maturity of over one year	-	-	50	-	-
Foreign exchange contracts	114,970,306	23,969,919	0-5	2,299,406	479,398
Interest rate contracts	-	-	0-3	-	-
Total	341,849,969	286,505,951		76,807,673	85,700,340

NOTES TO THE FINANCIAL STATEMENTS

	Bank	
	2020 LKR '000	2019 LKR '000
Computation of capital		
Common equity Tier I (CET1) capital	79,604,100	77,941,284
Total Tier I capital	79,604,100	77,941,284
Total capital	129,271,791	106,972,204
Computation of ratios		
Total risk-weighted assets for credit risk	743,655,441	650,675,272
Total risk-weighted assets for market risk	5,591,325	6,430,053
Total risk-weighted assets for operational risk	86,277,034	72,551,719
Total risk-weighted assets	835,523,801	729,657,044
Common equity Tier I (CET1) capital ratio (Minimum requirement 7.0% – 2020, 8.0% – 2019)	9.53	10.68
Total Tier I capital (Tier I) (Minimum requirement 8.5% – 2020, 9.5% – 2019)	9.53	10.68
Total capital ratio (Minimum requirement 12.5% – 2020, 13.5% – 2019)	15.47	14.66

As at 31 December	Group				
	Balance		Risk weight	Risk weighted balance	
	2020 LKR '000	2019 LKR '000	%	2020 LKR '000	2019 LKR '000
Assets					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	987,144,585	755,718,293	0-20	50,625,977	30,730,516
Claims on foreign sovereigns and their central banks	-	-	0-150	-	-
Claims on Public Sector Entities (PSEs)	131,502,915	136,949,488	20-150	78,134,064	78,781,418
Claims on official entities and Multilateral Development Banks (MDBs)	-	-	0-150	-	-
Claims on banks	31,938,007	14,987,176	20-150	12,417,381	4,895,450
Claims on financial institutions	5,122,660	10,365,254	20-150	3,119,119	6,400,135
Claims on corporates	141,447,901	149,413,570	20-150	135,409,892	134,144,513
Retail claims	573,554,336	502,145,117	75-100	479,464,562	432,558,819
Claims secured by gold	174,814,192	162,582,929	20-100	17,229	31,908
Claims secured by residential property	62,191,796	62,007,332	50-100	31,095,898	31,003,666
Claims secured by commercial real estate	-	-	100	-	-
Non-performing assets (NPAs)	34,666,518	25,862,953	50-150	39,760,727	30,983,701
Higher risk categories	-	-	150-250	-	-
Cash items	46,874,558	50,032,260	0-20	47,522	123,116
Property, plant and equipment	49,359,365	45,003,651	100	49,359,365	45,003,651
Other assets	16,782,844	20,960,877	100	16,782,844	20,960,877
Total	2,255,399,677	1,936,028,901		896,234,579	815,617,770

NOTES TO THE FINANCIAL STATEMENTS

Above risk-weighted assets include the credit equivalent of off-balance sheet exposures illustrated below:

Off-balance sheet exposures

Off-balance sheet exposures	Group				
	Balance		Credit conversion factor %	Credit equivalent	
	2020 LKR '000	2019 LKR '000		2020 LKR '000	2019 LKR '000
Instruments					
Direct credit substitutes	20,991,955	22,251,399	100	20,991,955	22,251,399
Transaction-related contingencies	41,129,235	51,641,885	50	20,564,618	25,820,942
Short-term self-liquidating trade-related contingencies	99,190,395	154,356,301	20	19,838,079	30,871,260
Sale and repurchase agreements and assets sale with recourse where the credit risk remains with the Bank	-	-	100	-	-
Obligations under an ongoing underwriting agreement	-	-	50	-	-
Other commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time	-	-	0-20	-	-
Commitments with an original maturity up to one year	72,487,943	41,356,304	20	14,497,589	8,271,261
Other commitments with an original maturity of over one year	-	-	50	-	-
Foreign exchange contracts	114,970,306	23,969,919	0-5	2,299,406	479,398
Interest rate contracts	-	-	0-3	-	-
Total	348,769,833	293,575,808		78,191,646	87,694,261

	Group	
	2020 LKR '000	2019 LKR '000
Computation of capital		
Common Equity Tier I (CET 1) capital	109,596,440	106,246,759
Total Tier I capital	109,596,440	106,246,759
Total capital	160,292,747	136,303,475
Computation of ratios		
Total risk-weighted assets for credit risk	896,234,579	815,617,770
Total risk-weighted assets for market risk	18,454,779	8,402,021
Total risk-weighted assets for operational risk	110,974,487	93,362,542
Total risk-weighted assets	1,025,663,845	917,382,333
Common Equity Tier I (CET1) capital ratio (Minimum requirement 7.0% – 2020, 8.0% – 2019)	10.69	11.58
Total Tier I capital (Tier I) (Minimum requirement 8.5% – 2020, 9.5% – 2019)	10.69	11.58
Total capital ratio (Minimum requirement 12.5% – 2020, 13.5% – 2019)	15.63	14.86

NOTES TO THE FINANCIAL STATEMENTS

52.1. The COVID-19 pandemic, relief measures undertaken to assist affected businesses and individuals and underlying expected loss assessment(s)

Overview

The Coronavirus pandemic ("COVID-19") caused a disruption to overall economic activity, not only locally but also globally, effecting most industries and sub sectors. It led to travel restrictions, lockdowns of cities and countries and overall movement control in a manner previously unseen in our lifetime. Many are still subject to quarantine measures. In addition to the health risks, the economic implications were across the Board. Businesses dealing with lost revenue and disrupted supply chains and many individuals dealing with loss of jobs.

Central Bank of Sri Lanka measures to assist businesses and individuals during their time of need

CBSL undertook several measures to provide financial relief to those affected both individuals and businesses. This was in the form of a debt moratorium extended through licensed banks/financial institutions in the country and special working capital loans extended through highly concessionary rates of interest.

Relief was extended primarily via the following circulars – amongst many other:

- 1. Circular No. 5 of 2020 dated 27 March 2020** instructing banks to offer a debt moratorium to COVID-19 affected segments of the economy. According to the above circular, banks were required to offer moratoriums of two months, three months, six months for eligible borrowers under different qualifying criteria. As per the Circular No. 4 of 2020 and the subsequent communication issued by the CBSL in this regard, banks were required to charge interest at a reduced rate of 7% per annum during the moratorium period for equated monthly instalments (EMI) loans.
- 2. Circular No. 8 of 2020 dated 26 August 2020 and Circular 10 of 2020 dated 9 November 2020:** The 2nd wave of the COVID-19 outbreak in the country resulted in re-imposing the travel restrictions, leading to disruption of economic activities. Giving due consideration on the requests received from affected individuals and businesses, CBSL advised licensed banks, to extend the debt moratorium for a further period of six months commencing from 1 October 2020 to 31 March 2021. Licensed banks shall convert the capital and interest falling due during the moratorium period commencing from 1 October 2020 to 31 March 2021 into a term loan of which repayment shall commence from

July 2021. Repayment period of the new loan shall be two years in general, however may vary based on the terms and conditions agreed with the borrower. The Banks were allowed to recover interest at the original EIR during the moratorium period and therefore did not recognise any modification loss on account of the second phase of the Covid-19 moratorium.

The granting of the moratorium is directly related to the cash flow difficulties generated by the occurrence of the Covid-19 pandemic. However, it did not lead to an automatic transfer of these credit facilities into stage 2 or in to stage 3. A case-by-case analysis has been conducted on the most significant exposures and only those exposures with increased credit risk has been moved to stages 2 or stage 3.

Significant assumptions and judgements

As a State Bank – People's Bank undertook several measures to offer relief to its customers to navigate the COVID-19 pandemic. Utilization of a payment deferral programme does not, all else being equal, automatically trigger a significant increase in credit risk.

Exercise of credit judgement

The Bank has applied expert credit judgement, in the assessment of underlying credit deterioration and migration of balances to progressive stages. The Bank considers both quantitative and qualitative information in the assessment of significant increases in credit risk which includes, amongst other, a facility being 30 days past due. Utilisation of a payment deferral programme was not necessarily considered an immediate trigger, in keeping with CA Sri Lanka and regulatory guidance, for an account to migrate to a progressive stage.

The measurement of expected credit losses for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

Significant increase in credit risk

The Bank uses as an exhaustive list in determining significant increase in credit risk which includes, amongst other, those set out in Section 5.4 of Central Bank of Sri Lanka's Circular No. 4 of 2018 dated 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

PD, LGD, EAD and staging

The PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation includes a projection of all relevant macroeconomic variables used in our models for a five-year period, subsequently reverting to long-run averages. Macroeconomic variables used in our expected credit loss models include, but are not limited to, unemployment rates, gross domestic product growth rates, Interest rates, and Inflation.

The EFA

The Bank's allowance for credit losses reflects its economic outlook at 31 December 2020. Subsequent changes to this forecast and related estimates will be reflected in our allowance for credit losses in future periods. The primary variables driving credit losses are unemployment rates, GDP, Weighted average prime lending rate and Colombo consumer price index.

The economic stress is captured through the Economic Factor Adjustment. This is a composite of three cases – i.e. the base case, the best case and the worst case with probability weights of 30%, 30% and 40%, respectively. Whilst the base case scenario expects the overall economy to witness a gradual V shape recovery, even though growth and employment in individual industries are expected to show considerable diversity. While some industries are expected to fully recover over the course of the next few quarters, others are expected to weaken below the pre-pandemic levels.

Going concern

The Directors have considered the potential consequences arising from the COVID-19 pandemic on the business operations of the Bank in making this assessment.

As at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome with the fundamental credit model mechanics and methodology underpinning the Bank's calculation of ECL has remained broadly consistent with prior periods.

The Bank focused on supporting customers who are experiencing financial difficulties because of the COVID-19 pandemic and has offered a range of industry-wide financial assistance measures including, amongst many other, the debt moratorium initiated by the Central Bank of Sri Lanka. As per industry guidance, eligibility for the debt moratorium does not automatically result in a significant increase in credit risk (SICR) which moves an exposure from stage 1 (12-month ECL) to stage 2 (lifetime ECL).

Financial assets and liabilities classification

COVID-19 pandemic has resulted in significant volatility in the financial markets. However, the Bank did not reclassify any of its financial assets as a result of the significant volatility created by the pandemic. Its classifications have been consistent with the prior periods.

De-recognition of financial assets and liabilities

COVID-19 relief extended pursuant to regulatory relief programmes were not considered as substantial modifications to the original terms of such loans and thus the modification losses arising as a direct result thereof was recognised as a day-one loss during the year ended 31 December 2020 under interest income.



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INCOME STATEMENT USD

For the year ended 31 December	Bank			Group		
	2020 USD '000	2019* USD '000	Change %	2020 USD '000	2019* USD '000	Change %
Gross income	1,016,310	1,101,143	-7.70	1,191,477	1,313,344	-9.30
Interest income	956,368	1,029,390	-7.10	1,101,611	1,212,493	-9.10
Interest expenses	(632,109)	(691,947)	-8.60	(705,526)	(779,105)	-9.40
Net interest income	324,260	337,443	-3.90	396,085	433,388	-8.60
Fee and commission income	35,781	40,448	-11.50	41,594	47,390	-12.20
Fee and commission expense	(2,568)	(2,353)	9.10	(2,568)	(2,353)	9.10
Net fee and commission income	33,213	38,095	-12.80	39,027	45,037	-13.30
Net gain/(loss) from trading	13,778	15,004	-8.20	14,822	14,770	0.40
Other operating income (net)	10,384	16,300	-36.30	33,450	38,691	-13.50
Total operating income	381,634	406,843	-6.20	483,383	531,886	-9.10
Impairment charge	(61,555)	(46,796)	31.50	(93,478)	(64,380)	45.20
Net operating income	320,079	360,047	-11.10	389,905	467,506	-16.60
Personnel expenses	(104,953)	(107,474)	-2.30	(126,085)	(132,144)	-4.60
Other expenses	(81,673)	(95,028)	-14.10	(107,807)	(130,443)	-17.40
Operating Profit before Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Repayment Levy (DRL)	133,454	157,545	-15.30	156,013	204,919	-23.90
Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Repayment Levy (DRL) on financial services	(20,496)	(49,121)	-58.30	(24,855)	(63,437)	-60.80
Operating Profit after Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Repayment Levy (DRL)	112,958	108,423	4.20	131,158	141,482	-7.30
Share of profit/(loss) of associate (Net of tax)	-	-	-	5	(56)	-108.4
Profit before tax	112,958	108,423	4.20	131,162	141,426	-7.30
Income tax expenses	(37,526)	-37,162	1.00	(45,537)	(52,232)	-12.80
Profit for the year	75,432	71,262	5.90	85,626	89,193	-4.00
Profit attributable to:						
Equity holders of the Bank	75,432	71,262	5.90	81,046	82,614	-1.90
Non-controlling interests	-	-	-	4,580	6,579	-30.40
	75,432	71,262	5.90	85,626	89,193	-4.00

*Certain comparative figures have been reclassified to conform to the current period presentation (Refer Note 51).

Exchange Rate: 1 USD was LKR 187.92 as at 31 December 2020 (LKR 181.38 as at 31 December 2019).

The Income Statement and Statement of Financial Position given on pages 330 and 331 are solely for the convenience of shareholders, investors and other users of Financial Statements.

STATEMENT OF FINANCIAL POSITION – USD

For the year ended 31 December	Bank			Group		
	2020 USD '000	2019* USD '000	Change %	2020 USD '000	2019* USD '000	Change %
Assets						
Cash and cash equivalents	380,281	279,536	36.0	387,934	284,451	36.4
Balances with Central Bank of Sri Lanka	75,547	214,234	-64.7	75,547	214,234	-64.7
Placements with banks	54,835	53,418	2.7	74,027	73,851	0.2
Derivative financial instruments	520	499	4.1	520	499	4.1
Financial assets - at fair value through profit or loss	247,051	438,379	-43.6	280,596	443,293	-36.7
Financial assets - at amortised cost						
Loans and advances to banks	125,641	164,138	-23.5	125,708	164,138	-23.4
Loans and advances to other customers	8,703,747	7,223,102	20.5	9,452,227	8,051,997	17.4
Debt instruments measured at amortised cost	1,900,351	1,548,852	22.7	1,947,142	1,602,903	21.5
Financial assets - At fair value through other comprehensive income (OCI)						
Equity instruments at fair value through OCI	10,312	11,015	-6.4	9,465	9,774	-3.2
Debt instruments at fair value through OCI	14,007	14,186	-1.3	15,430	14,186	8.8
Investments in subsidiaries	10,312	6,646	55.2	-	-	-
Investments in associates	-	-	-	2,831	2,928	-3.3
Investment properties	6,712	6,963	-3.6	6,692	6,942	-3.6
Property, plant and equipment and right of use assets	204,377	189,158	8.0	255,974	241,171	6.1
Intangible assets and goodwill	3,737	3,864	-3.3	5,363	6,013	-10.8
Net deferred tax assets	3,701	-	-	-	-	-
Other assets	126,460	174,448	-27.5	135,181	184,411	-26.7
Total assets	11,867,592	10,328,438	14.9	12,774,636	11,300,791	13.0
Liabilities						
Due to banks	875,333	1,143,900	-23.5	917,640	1,209,781	-24.1
Derivative financial instruments	5,196	329	1477.5	5,196	329	1477.5
Due to other customers	9,765,494	8,222,289	18.8	10,298,148	8,759,919	17.6
Other borrowings	193,503	95,516	102.6	193,503	89,807	115.5
Current tax liabilities	35,166	20,814	69.0	40,119	33,784	18.7
Net deferred tax liabilities	-	5,909	-100.0	4,286	15,555	-72.4
Other liabilities	218,401	190,895	14.4	272,841	251,457	8.5
Subordinated term debts	231,793	125,229	85.1	302,624	223,358	35.5
Total liabilities	11,324,885	9,804,881	15.5	12,034,357	10,583,990	13.7
Equity						
Stated capital/assigned capital	64,933	67,272	-3.5	64,933	67,272	-3.5
Statutory reserve fund	42,703	40,333	5.9	42,703	40,333	5.9
Other reserves	174,861	150,888	15.9	185,847	161,522	15.1
Retained earnings	260,210	265,064	-1.8	384,578	387,797	-0.8
Total shareholders' equity	542,706	523,557	3.7	678,060	656,924	3.2
Non-controlling interests	-	-	-	62,219	59,877	3.9
Total equity	542,706	523,557	3.7	740,279	716,801	3.3
Total equity and liabilities	11,867,592	10,328,438	14.9	12,774,636	11,300,791	13.0
Contingent liabilities and commitments	2,607,213	2,006,391	29.9	2,648,460	2,045,313	29.5

Exchange Rate: 1 USD was LKR 187.92 as at 31 December 2020 (LKR 181.38 as at 31 December 2019).

The Income Statement and Statement of Financial Position given on pages 330 and 331 are solely for the convenience of shareholders, investors and other users of Financial Statements.

TEN YEAR SUMMARY – BANK

(LKR Mn.)	2020	2019*	2018	2017	2016	2015	2014	2013	2012	2011
Assets										
Cash and short-term funds	85,658	89,562	109,496	134,647	127,058	74,112	80,940	59,143	67,814	52,510
Investments	443,955	405,688	299,160	269,691	250,240	304,519	290,486	226,075	175,491	129,977
Loans and receivables (Net)	1,635,579	1,310,150	1,265,667	1,012,643	890,528	768,515	627,209	619,830	611,414	461,656
Property, plant and equipment and right-of-use assets	38,406	34,310	26,260	25,048	17,224	16,304	14,947	14,706	8,235	7,523
Other assets	26,521	33,697	34,120	25,071	16,999	13,146	13,186	10,832	10,343	10,412
Total assets	2,230,119	1,873,406	1,734,703	1,467,099	1,302,048	1,176,595	1,026,769	930,585	873,296	662,077
Liabilities										
Customer deposits	1,835,099	1,491,386	1,422,961	1,244,003	1,077,812	899,238	793,342	762,249	683,951	550,226
Borrowing from banks and others	200,852	224,809	173,607	105,057	134,109	192,083	157,198	102,148	135,150	64,053
Other liabilities	48,626	39,532	34,391	28,051	17,947	20,747	17,727	14,619	14,991	14,709
Subordinated term debts	43,558	22,714	12,534	12,532	12,532	15,033	15,033	15,033	10,000	10,000
Total liabilities	2,128,135	1,778,442	1,643,493	1,389,642	1,242,400	1,127,100	983,299	894,048	844,092	638,988
Total equity	101,984	94,964	91,210	77,457	59,649	49,495	43,470	36,537	29,205	23,089
Total equity and liabilities	2,230,119	1,873,406	1,734,703	1,467,099	1,302,048	1,176,595	1,026,769	930,585	873,296	662,077
Contingent liabilities and commitments	489,939	363,926	402,762	303,344	226,430	181,533	182,573	197,119	207,021	190,732
Operating results										
Gross income	190,982	199,729	181,284	160,835	122,114	103,649	96,377	120,456	94,777	68,298
Total operating income	71,715	73,795	69,886	61,856	55,060	54,743	41,894	46,530	43,310	36,431
Total operating expenses (Including VAT)	38,922	45,640	42,855	34,594	32,999	31,483	26,093	22,509	24,186	20,421
Profit before tax	21,227	19,666	24,406	25,913	20,814	19,520	17,231	10,304	15,249	15,600
Income tax	7,052	6,741	7,312	7,663	5,819	6,922	3,012	2,816	4,355	5,154
Profit after tax	14,175	12,926	17,095	18,250	14,995	12,598	14,219	7,488	10,894	10,446
Performance indicators										
Number of employees (permanent)	7,692	7,836	8,093	8,454	8,249	8,368	8,156	7,409	7,823	8,249
Per employee										
(LKR '000)										
Deposits	238,572	190,325	175,826	147,150	130,660	107,462	97,271	102,881	87,428	66,702
Loans and receivables	212,634	167,196	156,390	119,783	107,956	91,840	76,902	83,659	78,156	55,965
Gross earnings	24,829	25,489	22,400	19,025	14,804	12,386	11,817	16,258	12,115	8,280
Profit after tax	1,843	1,650	2,112	2,159	1,818	1,505	1,743	1,011	1,393	1,266
Per share										
(LKR)										
Profit after tax	14,175	12,926	17,095	18,250	14,995	12,598	14,219	7,488	10,894	10,446
Total assets	2,230,119	1,873,406	1,734,703	1,467,099	1,302,048	1,176,595	1,026,769	930,585	873,296	662,077
Equity	101,984	94,964	91,210	77,457	59,649	49,495	43,470	36,537	29,205	23,089
Return on assets % (before tax)	1.0	1.1	1.5	1.9	1.7	1.8	1.8	1.1	2.0	2.6
Return on equity %	14.4	13.9	20.3	26.6	27.5	27.1	35.5	22.8	41.7	49.2
Cost/income ratio %	54.3	61.8	61.3	55.9	59.9	57.5	62.3	48.4	55.8	56.1
Capital adequacy ratio (CAR) %	15.5	14.7	14.5	13.5	12.1	12.6	14.3	15.0	14.0	14.8
Non-performing loan (NPL) ratio (Gross) %	3.2	3.3	2.5	1.9	1.9	2.4	3.2	5.3	2.8	3.4
Fitch rating	AA-	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA

*Certain comparative figures have been adjusted to conform to the current period presentation.

TEN YEAR SUMMARY – GROUP

(LKR Mn.)	2020	2019*	2018	2017	2016	2015	2014	2013	2012	2011
Assets										
Cash and short-term funds	87,096	90,453	110,451	135,364	129,458	76,840	83,003	61,174	69,515	54,583
Investments	461,373	419,190	311,581	280,357	258,049	311,141	300,366	229,280	176,138	130,333
Loans and receivables (Net)	1,776,231	1,460,498	1,415,928	1,143,767	1,013,921	869,781	722,099	710,074	690,197	534,875
Property, plant and equipment and right-of-use assets	48,102	43,744	35,434	33,758	23,441	22,696	19,364	18,184	10,923	9,933
Other assets	27,766	35,889	35,147	25,833	19,528	14,279	14,425	12,760	14,087	14,665
Total assets	2,400,567	2,049,775	1,908,540	1,619,079	1,444,398	1,294,737	1,139,258	1,031,473	960,860	744,389
Liabilities										
Customer deposits	1,935,194	1,588,903	1,495,326	1,305,626	1,119,753	932,906	829,019	789,225	708,897	572,722
Borrowing	208,802	235,724	207,330	134,263	172,419	225,795	193,825	140,865	174,728	101,028
Other liabilities	60,592	54,619	49,285	40,299	30,509	32,328	27,469	23,153	21,486	21,906
Subordinated term debts	56,868	40,513	33,085	32,448	36,526	30,907	24,883	23,141	10,000	10,000
Total liabilities	2,261,457	1,919,759	1,785,027	1,512,635	1,359,207	1,221,937	1,075,196	976,384	915,111	705,656
Total equity	139,111	130,016	123,513	106,443	85,191	72,801	64,062	55,088	45,749	38,734
Total equity and liabilities	2,400,567	2,049,775	1,908,540	1,619,079	1,444,398	1,294,737	1,139,258	1,031,473	960,860	744,389
Contingent liabilities and commitments	497,690	370,986	409,575	304,102	226,442	181,545	182,597	197,376	208,570	191,045
Operating results										
Gross income	223,898	238,219	214,664	188,854	144,750	123,831	118,641	139,957	109,974	79,900
Total operating income	90,836	96,475	89,843	77,518	68,429	67,635	54,308	55,576	49,618	42,163
Total operating expenses (Including VAT)	48,623	59,135	54,554	44,600	41,633	38,346	32,779	27,264	27,304	22,669
Profit before tax	24,648	25,652	31,162	29,868	25,433	24,121	21,628	13,412	17,671	18,843
Income tax	8,557	9,474	9,669	9,358	7,477	9,053	4,674	4,248	5,775	6,319
Profit after tax	16,090	16,178	21,492	20,511	17,956	15,068	16,953	9,164	11,897	12,524
Performance indicators										
Number of employees	11,051	11,237	11,394	11,396	10,471	10,682	10,331	9,384	8,905	9,723
Per employee										
(LKR '000)										
Deposits	175,115	141,399	131,238	114,569	106,939	87,334	80,246	84,103	79,607	58,904
Loans and receivables	160,730	129,972	124,270	100,366	96,831	81,425	69,896	75,669	77,507	55,011
Gross earnings	20,260	21,199	18,840	16,572	13,824	11,592	11,484	14,914	12,350	8,218
Profit after tax	1,456	1,440	1,886	1,800	1,715	1,411	1,641	977	1,336	1,288
Return on assets % (before tax)	1.1	1.3	1.8	1.9	1.9	2.0	2.0	1.3	2.1	2.8
Return on equity %	12.0	12.8	18.7	21.4	22.7	22.0	28.5	18.2	28.2	38.6
Cost/income ratio %	53.5	61.3	60.7	57.5	60.8	56.7	60.4	49.1	55.0	53.8
Capital adequacy ratio (CAR) %	15.6	14.9	14.5	13.7	13.0	13.8	14.9	15.9	15.7	15.7
Non-performing loan (NPL) ratio (Gross) %	3.9	3.7	2.7	2.0	1.9	2.4	3.2	4.9	2.6	2.9

*Certain comparative figures have been adjusted to conform to the current period presentation.

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Capital Adequacy

Capital adequacy is one of the key financial indicators which illustrate the soundness and the stability of a bank. This measures banks ability to withstand in an unexpected loss scenarios during various activities carried out by the Bank.

Basle committee on Bank supervision (BCBS) has implemented set of stringent measures of capital, liquidity and funding reforms. Accordingly BASEL III accord was issued in December 2010 and it has come into force and effect in Sri Lanka on 1 July 2017 based on the Central Bank Direction 01 of 2016 on capital requirement under BASEL III for licensed commercial banks. This replaces Basel II reforms which were in force and effect in Sri Lanka since 1 January 2008 onwards.

Commencing from 1 July 2017, with the amendment thereto under Direction 11 of 2019 on Domestically Systemically Important Banks (D-SIBS) dated 20 December 2019; Bank has to maintain the Capital in three tiers as mentioned below:

Due to extraordinary measures taken by CBSL due to COVID-19 outbreak, minimum capital requirements are revised to support the economic stability and growth of the country. Accordingly minimum capital requirement of the bank are as follows:

	Minimum requirement
Common Equity Tier I capital ratio (CETI)	7.00%
Total Tier I capital ratio (CET I+ AT I)	8.50%
Total capital ratio	12.50%

Common Equity Tier I (CET I) is mainly comprised of equity capital, other capital and retained earnings. CET I is the highest quality capital and effective capital in absorbing losses.

Additional Tier I (AT 1) capital includes capital instruments other than the instruments included in CET I capital.

Total capital is comprised of Tier I plus other qualifying capital instruments (i.e. such as subordinated debentures subject to regulatory deductions, revaluation reserves on property, plant and equipment with a cap of up to 50% and general loan loss provision)

BASEL III has introduced new capital buffers and all banks are required to hold additional capital buffers over and above the minimum CET I and Total Capital Adequacy levels stipulated above.

- Capital conservation buffer
- High Loss Absorbency (HLA) requirement on Domestically Significant Banks (D-SIBs)
- Counter cyclical buffer

Three Pillars introduced by BASEL II is continued to be applied in the BASEL III framework is mentioned below:

- Pillar I – Minimum capital requirements
- Pillar II – supervisory review process
- Pillar III– Market discipline

Pillar I – Minimum capital requirement

Minimum capital requirement shall maintain as a percentage of risk-weighted assets (RWAs) and bank calculated its RWAs based on following approaches:

- The standardised approach for credit risk
- The standardised measurement method for market risk
- The basic indicator approach for operational risk

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Pillar II – Supervisory review process (SRP)

SRP framework assesses the Bank's capital adequacy and determining whether bank is maintaining additional capital to cover its risks. Bank has developed an ICAAP (Internal Capital Adequacy Assessment Process) framework in this regard, which closely indicates risks and capital assessment processes to support the Bank's current and projected demand for capital under unexpected and stressed conditions.

Pillar III – Market discipline

Pillar III aims to provide consistent and comprehensive disclosure framework which enhances the comparability between banks. It requires number of disclosure requirements to give better understanding of capital adequacy to external share holders by providing an insight into the internal computation procedures followed by the Bank.

Accordingly disclosures required to be published as per the Central Bank Direction 1 of 2016 are set out below:

Template 01: Key regulatory ratio – Capital and liquidity

	Bank		Group	
	As at 31 December 2020	As at 31 December 2019	As at 31 December 2020	As at 31 December 2019
Regulatory capital (LKR '000)				
Common Equity Tier I capital	79,604,100	77,941,284	109,596,440	106,246,759
Total Tier I capital	79,604,100	77,941,284	109,596,440	106,246,759
Total capital	129,271,791	106,972,205	160,292,747	136,303,475
Regulatory capital ratio (%)				
Common Equity Tier I Capital Ratio (Minimum requirement – 7.00% - 2020, 8.0% - 2019)	9.53	10.68	10.69	11.58
Total Tier I capital (Minimum requirement – 8.50% - 2020, 9.5% - 2019)	9.53	10.68	10.69	11.58
Total Capital (Minimum requirement – 12.50% - 2020, 13.50% - 2019)	15.47	14.66	15.63	14.86
Regulatory liquidity				
Statutory liquid assets – Bank				
Domestic Banking Unit (LKR '000)	463,930,635	446,351,080	NA	NA
Off-Shore Banking Unit (USD '000)	1,165,688	504,025	NA	NA
Statutory liquid assets – (Minimum requirement 20%)				
Domestic Banking Unit (%)	25.61	29.54	NA	NA
Off-Shore Banking Unit (%)	60.46	34.61	NA	NA
Liquidity coverage ratio (%) Rupee (Minimum requirement – 2020 - 90%, 2019 - 100%)				
	166.82	160.80	NA	NA
Liquidity coverage ratio (%) all currency (Minimum requirement – 2020 - 90%, 2019 - 100%)				
	111.55	132.10	NA	NA

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Template 02: Key regulatory ratio – Capital and liquidity

	Bank		Group	
	As at 31 December 2020 LKR '000	As at 31 December 2019 LKR '000	As at 31 December 2020 LKR '000	As at 31 December 2019 LKR '000
Common Equity Tier I (CET I) capital after adjustments	79,604,100	77,941,284	109,596,440	106,246,759
Common Equity Tier I (CET I) capital	83,062,102	80,750,618	111,748,610	109,238,461
Equity/Assigned capital	12,201,998	12,201,998	12,201,998	12,201,998
Reserve fund	8,024,521	7,315,774	8,024,521	7,315,774
Public retained earning/(Accumulated retained losses)	49,012,539	48,307,520	72,526,668	70,855,815
Publish accumulated other comprehensive income (OCI)	248,715	224,861	252,196	224,861
General and other disclosed reserves	13,574,329	12,700,465	13,574,329	12,700,465
Unpublished current year's profit/Loss and gain reflected in OCI	-	-	-	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	5,168,898	5,939,548
Total adjustments to CET I capital	3,458,002	2,809,334	2,152,170	2,991,702
Goodwill (Net)	-	-	-	-
Deferred tax asset (Net)	695,424	-	-	-
Intangible assets (Net)	702,181	700,875	1,007,730	1,090,714
Other (Investment in the capital of subsidiaries and other financial institution)	2,060,397	1,412,952	1,144,440	1,205,481
Defined benefit asset	-	695,507	-	695,507
Additional Tier I (AT i) capital after adjustments	-	-	-	-
Additional Tier I (AT i) capital	-	-	-	-
Qualifying additional Tier I capital instruments	-	-	-	-
Instrument issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	-	-
Total adjustments to AT I Capital	-	-	-	-
Investment in own shares	-	-	-	-
Other (Specify)	-	-	-	-
Tier II capital after adjustments	49,667,691	29,030,921	50,696,308	30,056,716
Tier II capital	49,667,691	29,030,921	50,696,308	30,056,716
Qualifying Tier II capital instruments	33,796,850	15,625,000	33,796,850	15,625,000
Revaluation gains	7,025,956	7,025,956	7,025,956	7,025,956
Loan loss provisions	8,844,885	6,379,965	9,873,502	7,405,760
Instrument issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	-	-
Total adjustment to Tier II	-	-	-	-
Investment in own shares	-	-	-	-
Other (Specify)	-	-	-	-
CET capital	79,604,100	77,941,284	109,596,440	106,246,759
Total Tier I capital	79,604,100	77,941,284	109,596,440	106,246,759
Total capital	129,271,791	106,972,205	160,292,747	136,303,475

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

	Bank		Group	
	As at 31 December 2020	As at 31 December 2019	As at 31 December 2020	As at 31 December 2019
Total risk-weighted assets (LKR '000)	835,523,801	729,657,045	1,025,663,845	867,221,246
RWA for credit risk (LKR '000)	743,655,441	650,675,272	896,234,579	815,617,770
RWA for market risk (LKR '000)	5,591,325	6,430,053	18,454,779	8,402,021
RWA for operational risk (LKR '000)	86,277,034	72,551,719	110,974,487	93,362,542
CET I capital ratio (Including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	9.53	10.68	10.69	11.66
of which: capital conservation buffer (%)	1.50	2.50	1.50	2.50
of which: countercyclical buffer (%)	-	-	-	-
of which: capital surcharge on D-SIBs (%)	1.00	1.00	1.00	1.00
Total Tier I capital ratio (%)	9.53	10.68	10.69	11.66
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	15.47	14.66	15.63	14.48
of which: capital conservation buffer (%)	1.50	2.50	1.50	2.50
of which: countercyclical buffer (%)	-	-	-	-
of which: capital surcharge on D-SIBs (%)	1.00	1.00	1.00	1.00

Template 03: Computation of leverage ratio

	Bank		Group	
	As at 31 December 2020 LKR '000	As at 31 December 2019 LKR '000	As at 31 December 2020 LKR '000	As at 31 December 2019 LKR '000
Tier I capital	79,604,100	77,941,284	109,596,440	106,246,759
Total exposures	2,319,824,014	1,956,281,017	2,492,962,547	2,134,461,039
On balance sheet items (Excluding derivatives and securities financing transactions, but including collateral)	2,215,313,018	1,852,096,324	2,387,054,979	2,028,282,425
Derivative exposures	1,817,796	553,750	1,817,796	553,750
Securities financing transaction exposures	28,184,933	18,410,000	28,197,532	18,410,000
Other off-balance sheet exposures	74,508,267	85,220,942	75,892,240	87,214,863
Basel III Leverage ratio (%) (Tier I/Total exposure)	3.43%	3.98%	4.40%	4.98%

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Template 04: Computation of liquidity coverage ratio

	As at 31 December 2020		As at 31 December 2019	
	Total unweighted value LKR '000	Total weighted value LKR '000	Total unweighted value LKR '000	Total weighted value LKR '000
Total stock of high-quality liquid assets (HQLA)	435,978,801	434,450,384	410,810,268	409,287,666
Level 1 assets	432,921,968	432,921,968	407,765,063	407,765,063
Level 2A assets	-	-	-	-
Level 2B assets	3,056,833	1,528,416	3,045,205	1,522,603
Total cash outflows	2,225,493,314	539,890,881	1,851,660,335	381,470,849
Deposits	1,281,030,229	128,103,023	1,034,947,511	103,494,751
Unsecured wholesale funding	594,546,403	307,322,741	486,161,256	240,769,480
Secured funding transactions	14,436,972	-	11,508,468	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	267,432,676	36,418,083	306,238,279	24,401,797
Additional requirements	68,047,034	68,047,034	12,804,821	12,804,821
Total cash inflows	218,809,926	150,423,304	135,011,332	71,650,766
Maturing secured lending transactions backed by collateral	23,992,082	12,740,676	29,841,508	11,415,369
Committed facilities	-	-	-	-
Other inflows by counterparty which are maturing within 30 days	116,278,613	71,457,687	95,505,309	52,853,956
Operational deposits	12,314,289	-	2,283,074	-
Other cash inflows	66,224,941	66,224,941	7,381,441	7,381,441
Liquidity coverage ratio (%) (Stock of high quality liquid assets/ Total net cash outflows over the next calendar days)* 100		111.55		132.10

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Template 05: Main features of regulatory capital instruments

	Number 2 Debenture issued in 2009	Number 3 Debenture issued in 2011	Number 4 Debenture issued in 2013	Type A Debenture issued in 2019	Type B Debenture issued in 2019	Type A Debenture issued in 2020	Type B Debenture issued in 2020
Must be provided for each type of capital instrument separately							
Description of the capital instrument							
Issuer	People's Bank	People's Bank	People's Bank	People's Bank	People's Bank	People's Bank	People's Bank
Unique identifier (e.g. ISIN or bloomberg identifier for private placement)	2	3	4	A	B	A	B
Original date of issuance	30 December 2009	30 December 2011	15 December 2013	8 November 2019	8 November 2019	27 July 2020	27 July 2020
Par value of instrument	2,500,000,000	5,000,000,000	5,000,000,000	6,563,000,000	3,437,000,000	12,900,000,000	7,100,000,000
Original maturity date, if applicable	29 December 2022	29 December 2022	29 December 2022	8 November 2024	8 November 2027	27 July 2025	27 July 2028
Amount recognised in regulatory capital (in LKR '000 as at the reporting date)	1,375,000,000	–	2,750,000,000	6,234,850,000	3,437,000,000	12,900,000,000	7,100,000,000
Accounting classification (equity/liability)	Liability	Liability	Liability	Liability	Liability	Liability	Liability
Issuer call subject to prior supervisory approval							
Optional call date, contingent call dates and redemption amount (LKR '000)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Coupons/dividends							
Fixed or floating dividend/ coupon	Fixed rate	Fixed rate	Fixed rate	Fixed rate	Fixed rate	Fixed rate	Fixed rate
Coupon rate and any related index	13.50%	13.00%	13.00%	12.00%	12.25%	9.50%	10.25%
Non-cumulative or cumulative	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Convertible or non-convertible							
If convertible, conversion trigger (s)	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, mandatory or optional	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Template 06: Summary discussion on the adequacy/meeting current and future capital requirements

Overview

- In accordance with CBSL stipulations, the Bank carries out an annual Internal Capital Adequacy Assessment Process. The assessment covers a five (5) year time horizon with the last carried out for 2019-2023

Material exposures

- At the end of 2020, close 50.2% of the Bank's total loan book was composed of exposures to the State and Other State-Owned Enterprises. State exposures mostly backed by sovereign undertaking(s) by way of either a Treasury guarantee/indemnity and/or another form of Government assurance
- Leaving aside such sovereign-backed exposures, the Bank's single largest exposure to a non-sovereign does not account for over 2.0% of the Bank's total loan book

Initiatives taken to bolster regulatory capital during 2017, 2018, 2019 and 2020

- During 2017, 2018, 2019 and 2020 – the Bank undertook several initiatives to bolster its regulatory capital and meet all requisite Basel III Risk Control measures. From a Capital Adequacy/Solvency perspective, these included amongst other.

2017

- Raise LKR 5.0 Bn. in New Capital from General Treasury, Ministry of Finance on 21 July 2017. This was first so received over the last eight (8) years
- Reduce its dividend payout, as measured as a function of post tax profit, to 28.6% during 2017 from 54.8% in 2016
- Revalued all its land and buildings on 1 July 2017. This enabled the Bank recognise close to LKR 3.6 Bn. in Tier II capital with requisite regulatory clearance
- Ensured new facilities extended to State-Owned Enterprises were backed by the sovereign backed and, in case of other forms of Government assurances, ensure they are as a general rule routed through the Monetary Board of the Central Bank of Sri Lanka for prior approval
- Carry-out an interim profit certification for the six-month period ended 30 June 2017 in view of ensuring interim regulatory capital pressures are managed in order to support loan book growth
- Undertake efforts necessary to amend the People's Bank Act to facilitate the issuance of Debentures to enable the Bank conform with Basel rules. This process was once again revived with the assistance of the line of Ministry

As a result of all the above, during 2017 – the Bank successfully met all Basel III Risk Control measures without any exception or excuse, be Capital Adequacy Ratio, Liquidity Coverage Ratio, Net Stable Funding and Leverage.

2018

- The Bank endeavoured to further reduce its dividend payout ratio, as measured as a function of dividends over post tax profit, to 20.0% in 2018 from 28.6% in 2017.
- Loan book growth was risk measured during 2018
- Interim profit certifications were carried out for the six months period ended 30 June 2018 in view of ensuring interim regulatory capital requirements were met
- The process in relation to the People's Bank Act amendment continued. This was key to long-term sustainable loan book growth

As a result of all the above, during 2018 – the Bank successfully met all Basel III Risk Control measures without any exception or excuse, be Capital Adequacy Ratio, Liquidity Coverage Ratio, Net Stable Funding and Leverage.

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

2019

- a. The Bank further reduced its dividend payout ratio to 18.7% in 2019 from 20.0% in 2018
- b. Interim profit certifications were carried during the three months ended 31 March 2019, six months ended 30 June 2019 and the nine months ended 30 September 2019 in view of managing/avoiding interim regulatory capital pressures
- c. The People's Bank Act amendments was finalised in September 2019
- d. On 8 November 2019 – the Bank issued its first Basel III, Tier II compliant debenture for value LKR 10.0 Bn.

As a result of all the above, during 2019 – the Bank successfully met all Basel III Risk Control measures without any exception or excuse, be Capital Adequacy Ratio, Liquidity Coverage Ratio, Net Stable Funding and Leverage.

2020

- a. On 1 July 2020 – as originally planned – the Bank revalued all its land and buildings. This resulted in a Tier II benefit of close to LKR 2.3 Bn. (Net of deferred tax) However, such benefit is likely to be recognised at 31 March 2021 once requisite regulatory clearance is received. The next detailed revaluation is set to be carried out on 1 July 2023
- b. On 27 July 2020 – the Bank issued LKR 20.0 Bn. in Basel III, Tier II debentures which was the single largest issuance for any Bank/Financial Services Provider to date in the country

As a result of all the above, during 2020 – the Bank successfully met all Basel III Risk Control measures without any exception or excuse, be Capital Adequacy Ratio, Liquidity Coverage Ratio, Net Stable Funding and Leverage.

2021 plan

- The Bank is in a constant and continuous process of undertaking measures reasonably necessary to bolster its regulatory capital levels
- Following are slated to be undertaken during 2021
 - a. Issue Additional Tier I and Tier II Basel III compliant instruments
 - b. Continue to maintain its lower dividend/levy payout policy during the year
 - c. Carry-out an interim profit certifications in view of avoiding regulatory capital shortfalls

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Template 07: Credit risk under standardised approach credit risk exposures and credit risk mitigation (CRM) effects (Bank)

As at 31 December 2020		Exposures before CCF and CRM			Exposures after CCF and CRM			Risk-weighted assets LKR '000	RWA density %
Item	Exposures on-balance sheet LKR '000	Exposures off-balance sheet LKR '000	Total LKR '000	Exposures on-balance sheet LKR '000	Exposures off-balance sheet LKR '000	Total LKR '000			
Total risk-weighted amount for credit risk	2,184,319,318	493,038,170	2,677,357,488	2,012,619,949	76,807,673	2,089,427,622	743,655,441	36	
Claims on Central Government and Central Bank of Sri Lanka	978,894,070	110,157,733	1,089,051,803	978,894,070	-	978,894,070	50,625,977	5	
Claims on foreign sovereigns and their central banks	-	-	-	-	-	-	-	-	
Claims on Public Sector Entities (PSEs)	266,113,331	120,570,641	386,683,971	115,535,473	15,967,442	131,502,915	78,134,064	59	
Claims on BIS, IMF and Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	
Claims on bank exposures	28,412,420	-	28,412,420	28,412,420	-	28,412,420	11,701,070	41	
Claims on financial institutions	4,454,573	-	4,454,573	4,454,573	-	4,454,573	2,708,497	61	
Claims on corporates	87,844,827	219,684,773	307,529,600	87,748,702	52,315,226	140,063,928	134,025,919	96	
Retail claims	454,922,074	42,625,023	497,547,097	433,896,688	8,525,005	442,421,693	348,331,918	79	
Claims secured by gold	174,814,192	-	174,814,192	174,814,192	-	174,814,192	17,229	-	
Claims secured by residential property	62,191,796	-	62,191,796	62,191,796	-	62,191,796	31,095,898	50	
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	
Non-performing assets (NPAs)	25,147,190	-	25,147,190	25,147,190	-	25,147,190	30,241,399	120	
Higher risk categories	816,645	-	816,645	816,645	-	816,645	2,041,612	250	
Cash items	46,023,864	-	46,023,864	46,023,864	-	46,023,864	47,522	-	
Other assets	54,684,336	-	54,684,336	54,684,336	-	54,684,336	54,684,336	100	

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Template 07: Credit risk under standardised approach credit risk exposures and credit risk mitigation (CRM) effects (GROUP)

Item	Exposures before CCF and CRM			Exposures after CCF and CRM			Risk-weighted assets LKR '000	RWA density %
	Exposures on-balance sheet LKR '000	Exposures off-balance sheet LKR '000	Total LKR '000	Exposures on-balance sheet LKR '000	Exposures off-balance sheet LKR '000	Total LKR '000		
Total risk-weighted amount for credit risk	2,348,907,400	499,958,034	2,848,865,434	2,177,208,031	78,191,646	2,255,399,677	896,234,579	40
Claims on Central Government and Central Bank of Sri Lanka	987,144,585	110,157,733	1,097,302,318	987,144,585	-	987,144,585	50,625,977	5
Claims on foreign sovereigns and their central banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities (PSEs)	266,113,331	120,570,641	386,683,971	115,535,473	15,967,442	131,502,915	78,134,064	59
Claims on BIS, IMF and Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-
Claims on bank exposures	31,938,007	-	31,938,007	31,938,007	-	31,938,007	12,417,381	39
Claims on financial institutions	5,122,660	-	5,122,660	5,122,660	-	5,122,660	3,119,119	61
Claims on corporates	87,844,827	226,604,637	314,449,464	87,748,702	53,699,199	141,447,901	135,409,892	96
Retail claims	586,054,717	42,625,023	628,679,740	565,029,332	8,525,005	573,554,336	479,464,562	84
Claims secured by gold	174,814,192	-	174,814,192	174,814,192	-	174,814,192	17,229	0
Claims secured by residential property	62,191,796	-	62,191,796	62,191,796	-	62,191,796	31,095,898	50
Claims secured by commercial real estate	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)	34,666,518	-	34,666,518	34,666,518	-	34,666,518	39,760,727	115
Higher risk categories	-	-	-	-	-	-	-	-
Cash items	46,874,558	-	46,874,558	46,874,558	-	46,874,558	47,522	-
Other assets	66,142,209	-	66,142,209	66,142,209	-	66,142,209	66,142,209	100

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Template 08 : Credit risk under standardised approach: Exposures by asset classes and risk weights – Bank only

Description	Amount [LKR '000 as at 31 December 2020 (Post CCF and CRM)]								Total credit exposures amount
	Risk weight	0%	20%	50%	75%	100%	150%	>150%	
Asset classes									
Claims on Central Government and Central Bank of Sri Lanka	621,518,445	357,375,625	-	-	-	-	-	-	978,894,070
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	66,711,064	-	-	64,791,851	-	-	-	131,502,915
Claims on banks exposures	-	17,763,341	5,001,355	-	5,647,724	-	-	-	28,412,420
Claims on financial institutions	-	-	3,492,152	-	962,422	-	-	-	4,454,573
Claims on corporates	-	697,313	11,359,425	-	127,608,083	399,107	-	-	140,063,928
Retail claims	174,728,048	86,144	-	376,359,097	66,062,595	-	-	-	617,235,885
Claims secured by residential property	-	-	62,191,796	-	-	-	-	-	62,191,796
Non-performing assets (NPAS)	-	-	175,631	-	14,607,509	10,364,049	-	-	25,147,190
Higher-risk categories	-	-	-	-	-	-	-	816,645	816,645
Cash items and other assets	45,786,256	237,608	-	-	54,684,336	-	-	-	100,708,200
Total	842,032,750	442,871,094	82,220,359	376,359,097	334,364,520	10,763,157	816,645	2,089,427,622	

Template 08 : Credit risk under standardised approach: Exposures by asset classes and risk weights – Group only

Description	Amount [LKR '000 as at 31 December 2020 (Post CCF and CRM)]								Total credit exposures amount
	Risk weight	0%	20%	50%	75%	100%	150%	>150%	
Asset classes									
Claims on Central Government and Central Bank of Sri Lanka	629,768,960	357,375,625	-	-	-	-	-	-	987,144,585
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	66,711,064	-	-	64,791,851	-	-	-	131,502,915
Claims on banks exposure	-	21,274,936	5,001,355	-	5,661,716	-	-	-	31,938,007
Claims on financial institutions	-	-	4,007,082	-	1,115,578	-	-	-	5,122,660
Claims on corporates	-	697,313	11,359,425	-	128,992,055	399,107	-	-	141,447,901
Retail claims	174,728,048	86,144	-	376,359,097	197,195,239	-	-	-	748,368,529
Claims secured by residential property	-	-	62,191,796	-	-	-	-	-	62,191,796
Non-performing assets (NPAs)	-	-	175,631	-	24,126,837	10,364,049	-	-	34,666,518
Higher-risk categories	-	-	-	-	-	-	-	-	-
Cash items and other assets	46,636,950	237,608	-	-	66,142,209	-	-	-	113,016,767
Total	851,133,959	446,382,689	82,735,289	376,359,097	488,025,486	10,763,157	-	2,255,399,677	

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Template 09: Market risk under standardised measurement method

	Bank		Group	
	As at 31 December 2020 LKR '000	As at 31 December 2019 LKR '000	As at 31 December 2020 LKR '000	As at 31 December 2019 LKR '000
(a) RWA for interest rate risk	165,101	419,575	165,101	419,575
General interest rate risk	161,553	408,483	161,553	408,483
(i) Net long or short position	161,553	408,483	161,553	408,483
(ii) Horizontal disallowance	-	-	-	-
(iii) Vertical disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific interest rate risk	3,548	11,092	3,548	11,092
(b) RWA for equity	288,307	434,005	1,896,238	710,080
(i) General equity risk	155,657	227,615	960,097	366,019
(ii) Specific equity risk	132,650	206,390	936,141	344,061
(c) RWA for foreign exchange and gold	245,508	46,628	245,508	46,628
(d) Capital charge for market risk (a)+(b)+(c)	698,916	900,207	2,306,847	1,176,283
RWA for market risk (d) *100/12.5 (2020) , *100 /13.5 (2019)	5,591,325	6,430,053	18,454,779	8,402,021

Template 10: Operational risk under basic indicator approach

	Bank				Group				
	Gross income				Gross income				
	1st year	2nd year	3rd year	Average	1st year	2nd year	3rd year	Average	
The basic indicator approach (LKR '000)	70,029,465	73,841,041	71,822,080	71,897,529	89,987,284	96,521,789	90,927,144	92,478,739	
Capital charges for operational risk (LKR '000)									
The basic indicator approach	15%	10,504,420	11,076,156	10,773,312	10,784,629	13,498,093	14,478,268	13,639,072	13,871,811
Risk-weighted amount for operational risk (LKR '000)									
The basic indicator approach	8.0	84,035,358	88,609,249	86,186,496	86,277,034	107,984,741	115,826,147	109,112,573	110,974,487

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Template 11: Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories – Bank only

	Carrying value as reported in published financial statements LKR '000	Carrying value under scope of regulatory reporting LKR '000	Subject to credit risk framework LKR '000	Subject to market risk framework LKR '000	Subject to deduction from capital LKR '000
Assets	2,230,118,665	2,230,118,665	2,179,937,393	47,418,694	3,458,002
Cash and cash equivalents	71,461,242	71,461,242	71,461,242	–	–
Balances with Central Bank of Sri Lanka	14,196,565	14,196,565	14,196,565	–	–
Placements with banks	10,304,422	10,304,422	10,304,422	–	–
Derivative financial instruments	97,645	97,645	97,645	–	–
Financial assets – At fair value through profit or loss	46,425,027	46,425,027	–	46,425,027	–
Financial assets – At amortised cost	–	–	–	–	–
Loans and receivables to banks	23,610,101	23,610,101	23,610,101	–	–
Loans and receivables to other customers	1,635,579,343	1,635,579,343	1,635,579,343	–	–
Debt instruments measured at amortised cost	357,107,701	357,107,701	357,107,701	–	–
Financial assets – At fair value through other comprehensive income (OCI)	–	–	–	–	–
Equity instruments at fair value through OCI	1,937,778	1,937,778	–	993,667	944,111
Debt instruments at fair value through OCI	2,632,231	2,632,231	2,632,231	–	–
Investments in subsidiaries	1,937,881	1,937,881	821,595	–	1,116,286
Investments in associates	–	–	–	–	–
Goodwill and intangible assets	702,181	702,181	–	–	702,181
Property, plant and equipment	38,405,839	38,405,839	38,405,839	–	–
Investment properties	1,261,338	1,261,338	1,261,338	–	–
Net deferred tax assets	695,424	695,424	–	–	695,424
Other assets	23,763,947	23,763,947	23,763,947	–	–
Liabilities	2,128,135,067	2,128,135,067	–	–	–
Due to banks	164,489,623	164,489,623	–	–	–
Derivative financial instruments	976,486	976,486	–	–	–
Due to other customers	1,835,099,456	1,835,099,456	–	–	–
Other borrowings	36,362,434	36,362,434	–	–	–
Current tax liabilities	6,608,202	6,608,202	–	–	–
Net deferred tax liabilities	–	–	–	–	–
Other liabilities	41,041,170	41,041,170	–	–	–
Subordinated term debts	43,557,696	43,557,696	–	–	–
Shareholders' equity	101,983,598	101,983,598	–	–	–
Stated capital/assigned capital	12,201,998	12,201,998	–	–	–
Statutory reserve fund	8,024,521	8,024,521	–	–	–
Other reserves	32,859,237	32,859,237	–	–	–
Retained earnings	48,897,842	48,897,842	–	–	–
Total equity and liabilities	2,230,118,665	2,230,118,665	–	–	–
Off-balance sheet liabilities	489,938,882	489,938,882	490,486,441	–	–
Acceptance	53,034,225	53,034,225	53,034,225	–	–
Guarantees	74,750,532	74,750,532	74,750,532	–	–
Letter of credit	74,557,296	74,557,296	74,557,296	–	–
Other contingent items	112,418,576	112,418,576	112,418,576	–	–
Undrawn loan commitments	175,725,812	175,725,812	175,725,812	–	–
(-) Allowance for ECL/Impairment losses	(547,559)	(547,559)	(547,559)	–	–

BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

Template 12: Group assessment of domestic systemically important banks (D-SIBs) As at 31 December 2020

LKR '000

Size indicator

Section 1 – Total exposures

Total exposure measure	2,492,962,547
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Interconnectedness indicators

Section 2 – Intra-financial system assets

a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended)	27,082,621
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(i) Funds deposited	22,117,519
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(ii) Lending	4,965,102
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b. Holdings of securities issued by other financial institutions	1,194,163
--	-----------

c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	15,654
--	--------

d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	246,030
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Intra-financial system assets	28,538,467
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Section 3 – Intra-financial system liabilities

a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	192,105,695
--	-------------

(i) Funds deposited	19,286,134
---------------------	------------

(ii) Borrowings	172,819,560
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b. Net negative current exposure of securities financing transactions with other financial institutions	688,500
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c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	19,557
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Intra-financial system liabilities	192,813,751
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Section 4 – Securities outstanding

Securities outstanding	56,868,035
------------------------	------------

Substitutability/Financial institution infrastructure indicators

Section 5 – Payments made in the reporting year (excluding intra-group payments)

Payments activity	3,278,253,047
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Section 6 – Assets under custody

Assets under custody	-
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Section 7 – Underwritten transactions in debt and equity markets

Underwriting activity	-
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Section 8 – Trading volume

a. Number of shares or securities	8,416
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b. Value of the transactions	13,913
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BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

	LKR '000
Complexity indicators	
Section 9 – Notional amount of over-the-counter (OTC) derivatives	
OTC derivatives	120,078,089
Section 10 – Level 2 Assets	
Level 2 assets	3,056,833
Section 11 - Trading and available for sale (AFS) securities	
a. Debt instruments	2,668,401
b. Equity instruments	8,308,266
c. Government Securities	46,430,116
d. Derivatives	97,645
Section 12 – Cross-jurisdictional liabilities	
Cross-jurisdictional liabilities (excluding derivatives and intra-group liabilities)	221,578,074
Section 13 – Cross-jurisdictional claims	
Cross-jurisdictional claims (excluding derivatives and intra-group claims)	49,460,734

EXTERNAL ASSURANCE ON SUSTAINABILITY REPORT



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(Chartered Accountants)
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INDEPENDENT ASSURANCE REPORT TO PEOPLE'S BANK

We have been engaged by the Management of People's Bank ("the Bank") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2020. The Sustainability Indicators are included in the People's Bank's Integrated Annual Report for the year ended 31 December 2020 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured sustainability indicators	Integrated Annual Report page
Financial Highlights	16

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited Assurance Sustainability Indicators	Integrated Annual Report Page
Non-financial highlights	17

Information provided on following capitals

Financial	65 to 69
Manufactured	70 to 74
Intellectual	76 to 82
Human	83 to 96
Social and Relationship	98 to 120
Natural	121 to 125

Our conclusions

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Reasonable Assurance Sustainability Indicators

In our opinion, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2020 are, in all material respects, prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

Limited Assurance Sustainability Indicators

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2020, have not in all material respects, been prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

Management's responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

These responsibilities includes establishing such internal controls as Management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Bank complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan FCA
A.M.R.P. Alahakoon ACA

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel ACA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA,
Ms. P.M.K. Sumanasekara FCA

EXTERNAL ASSURANCE ON SUSTAINABILITY REPORT

Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the Bank's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

Reasonable assurance over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgement, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Bank's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines, used by the Bank in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Bank, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

Limited assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with Senior Management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;

- enquiries of Management to gain an understanding of the Bank's processes for determining material issues for the Bank's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Bank;
- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Bank for the purpose of assisting the Directors in determining whether the Bank's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines and for no other purpose or in any other context.

Restriction of use of our report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Bank, for any purpose or in any other context. Any party other than the Bank who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Bank for our work, for this Independent Assurance Report, or for the conclusions we have reached.



CHARTERED ACCOUNTANTS
Colombo

8 March 2021

GRI CONTENT INDEX "IN ACCORDANCE WITH CORE" CRITERIA

GLOBAL REPORTING INITIATIVES (GRI) CONTENT INDEX – "IN ACCORDANCE CORE"

GRI standard disclosures		Page number(s)	Remarks
GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX – "IN ACCORDANCE CORE"			
GRI 102: General disclosures			
1. Organisational profile			
102-1	Name of the organisation	358	
102-2	Activities, brands, products and services	100 and 101	
102-3	Location of headquarters	358	
102-4	Location of operations	73	
102-5	Ownership and legal form	358	
102-6	Markets served	73	
102-7	Scale of the organisation	16 and 17	
102-8	Information on other employees and other workers	86 and 87	
102-9	Supply chain	108	
102-10	Significant changes to the organisation and its supply chain	108	
102-11	Precautionary principle or approach	03	
102-12	External initiatives	02	
102-13	Membership of associations	109	
2. Strategy			
102-14	Statement from senior decision-maker	18 to 21	
102-15	Key impacts risks, and opportunities	140 to 171	
3. Ethics and integrity			
102-16	Values, principles, standards and norms of behavior	10, 95 and 96	
102-17	Mechanisms for advice and concerns about ethics	95 and 96	
4. Governance			
102-18	Governance structure	173 and 179	
102-19	Delegating authority	179	
102-22	Composition of the highest governance body and its committees	26 to 29, 173 and 174	
102-23	Chair of the highest governance body	26 to 29, 174 and 176	
102-24	Nominating and selecting the highest governance body	174 and 177	
102-25	Conflicts of interest	182 and 189	
102-26	Role of highest governance body in setting purpose, values and strategy	95 and 96	
102-30	Effectiveness of risk management processes	140 and 171	
102-31	Review of economic, environmental and social topics		Each and every meeting pertaining to Board of Directors and Board Sub Committees are concerned over the economic, social and environmental impacts to the business decisions taken in such respective committees.
102-32	Highest governance body's role in sustainability reporting	179	
102-33	Communicating critical concerns	174	
102-34	Nature and total number of critical concerns	191	
102-35	Remuneration policies	187	
102-36	Process for determining remuneration	187	

GRI CONTENT INDEX "IN ACCORDANCE WITH CORE" CRITERIA

GRI standard disclosures	Page number(s)	Remarks
5. Stakeholder engagement		
102-40 List of stakeholder groups	49 to 51	
102-41 Collective bargaining agreements	95	
102-42 Identifying and selecting stakeholders	49 to 51	
102-43 Approach to stakeholder engagement	49 to 51	
102-44 Key topics and concerns raised	49 to 51	
6. Reporting practice		
102-45 Entities included in the consolidated financial statements	02	
102-46 Defining report content and topic boundaries	02, 53 to 56	
102-47 List of material topics	53 to 56	
102-48 Restatements of information	02	
102-49 Changes in reporting	02	
102-50 Reporting period	02	
102-51 Date of most recent report	01	
102-52 Reporting cycle	02	
102-53 Contract point for questions regarding the report	03	
102-54 Claims of reporting in accordance with the GRI Standards	02	
102-55 GRI content index	351 to 354	
102-56 External assurance	03	
GRI 103: Management approach		
103-1 Explain the material topics and its boundary	53 to 56	
103-2 The Management Approach and its components	53 to 56	
103-3 Evaluation of the Management Approach	53 to 56	
GRI Specific Disclosures		
Economic topics		
GRI 201: Economic performance		
201-1 Direct economic value generated and distributed	113	
201-2 Financial implications and other risks and opportunities due to climate change		Climate change does not have a significant impact on our business. No records were maintained to catalogue the effect of climate change on our business.
201-3 Defined benefit plan obligations and other retirement plans	223	
GRI 202: Market presence		
202-1 Ratios of standard entry level wage by gender compared to local minimum wage		There is no entry level wage rate imposed on Banking Sector. However, Bank's entry level wage is higher than the national minimum wage rate.
202-2 Proportion of senior management hired from the local community	88 to 89	
GRI 203: Indirect economic impacts		
203-1 Infrastructure investments and services supported	120	
203-2 Significant indirect economic impacts	103	

GRI CONTENT INDEX "IN ACCORDANCE WITH CORE" CRITERIA

GRI standard disclosures		Page number(s)	Remarks
GRI 204: Procurement practices			
204-1	Proportion of spending on local suppliers	106	
GRI 205: Anti-corruption			
205-1	Operations assessed for risks related to corruption		The Bank evaluates the potential impact of operational risk on all products, processes and activities on an ongoing basis.
205-2	Communication and training about anti-corruption policies and procedures	95 and 96	
205-3	Confirmed incidents of corruption and actions taken	95 and 96	
GRI 206: Anti-competitive behaviour			
206-1	Legal actions for anti-competitive behavior, anti-trust and monopoly practices	100	
Economic topics			
GRI 302: Energy			
302-1	Energy consumption within the organisation	124 and 125	
302-2	Energy consumption outside the organisation	124 and 125	
302-3	Energy intensity	124 and 125	
302-4	Reduction of energy consumption	124 and 125	
GRI 305: Emissions			
305-1	Direct (scope 1) GHG emissions	123 and 124	
305-2	Indirect (scope 2) GHG emissions	123 and 124	
305-3	Other indirect (scope 3) GHG emissions	123 and 124	
Social topics			
GRI 401: Employment			
401-1	New employee hires and employee turnover	89, 93 and 94	
401-2	Benefits provided to full-time employee that are not provided to temporary or part time employees	93	
401-3	Parental leave	92	
GRI 402: Labour/management relations			
402-5	Minimum notice periods regarding operational changes	95	
GRI 403: Occupational health and safety			
403-1	Workers representation in formal joint management-worker health and safety committees	92	
403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related facilities	92	
403-3	Workers with high incidence or high risk of diseases related to their occupation		No reported incidents during the reporting period.
GRI 404: Training and education			
404-1	Average hours of training per year per employee	89 to 90	
404-2	Programmes for upgrading employee skills and transition assistance programmes	89 to 90	
404-3	Percentage of employees receiving regular performance and career development reviews	91	

GRI CONTENT INDEX "IN ACCORDANCE WITH CORE" CRITERIA

GRI standard disclosures		Page number(s)	Remarks
GRI 405: Diversity and equal opportunity			
405-1	Diversity of governance bodies and employees	91	
405-2	Ratio of basic salary and remuneration of women to men	91	
GRI 406: Non-discrimination			
406-1	Incidents of discrimination and corrective actions taken	92	
GRI 407: Freedom of association and collective bargaining			
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	None	
GRI 413: Local communities			
413-1	Operations with local community engagement, impact assessments and development programmes	114 to 119	
413-2	Operations with significant actual and potential negative impacts on local communities		No incident was reported during the reporting period.
GRI 416: Customer health and safety			
416-1	Assessment of the health and safety impacts of product and service categories	105	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	105	
GRI 417: Marketing and labelling			
417-1	Requirements for products and service information and labeling	102	
417-2	Incidents of non-compliance concerning product and service information and labeling	102	
417-3	Incidents of non-compliance concerning marketing communications	102	
GRI 418: Customer privacy			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	105	

GLOSSARY OF FINANCIAL/BANKING TERMS

A

Accounting policies

Principles, rules and procedures selected and consistently followed by the management of an entity in preparing and reporting the Financial Statements.

Accrual basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Amortisation

Systematic allocation of the depreciable amount of an intangible asset over its useful life. Depreciation and amortisation both have the same meaning.

Actuarial valuation

Fund value determined by computing its normal cost, actuarial accrued liability, actuarial value of its assets and other relevant costs and values.

Amortised cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Associate company

A company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

Available-for-sale financial asset

Those financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit and loss.

B

Bill discounted

A Promissory Note or Bill of Exchange that has been purchased for less than face value, the difference representing interest on the unexpired term of the bill. At maturity, the holder collects the face value of the bill for its own account.

Bill of exchange

A signed, written, unconditional order addressed by one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of a third person (the payee). The terms bill of exchange and draft are often used interchangeably.

C

Call deposits or call money

Deposits or funds lent out which are repayable on demand.

Capital adequacy

The ability of a Bank to meet the needs of their depositors and other creditors in terms of available funds. As per requirement of Bank for International Settlements (BIS) and Central Bank of Sri Lanka, local banks should maintain a stipulated minimum capital.

Capital adequacy ratio

The percentage of the risk-adjusted assets supported by capital, as defined under the framework of risk based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Credit risk

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Cash equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Certificate of deposit (CD)

A certificate issued by a Bank against funds deposited with it that specifies the rate of interest payable and the date when the deposit will be repaid to the bearer. CDs are often negotiable.

Commercial paper

Unsecured short-term Promissory Notes issued by banks and creditworthy corporate borrowed.

Commitments

Credit facilities approved but not yet utilised by the clients as at the balance sheet date.

Contingencies

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent banks

A bank that acts as an agent for another bank. The correspondent Bank will generally provide a wide variety of banking services on behalf of the other banks in the region in which the correspondent bank is located.

Cost income ratio

Operating expenses as a percentage of net income.

Counterparty

The other party (including a bank) with whom a deal is made or closed.

Country risk

The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

Cross rate

The calculated foreign exchange rate from two separate quotations involving the same currency.

Currency swap

A current exchange of principal amounts in two currencies combined with an agreement to re-exchange the currencies at a later date and to make interest payments, until the re-exchange, on the currency is received.

D

Deferred tax

Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the current financial year.

Depreciation

The systematic allocations of the depreciable amount of the assets over its useful life.

Derivative

A financial instrument with all three of the following characteristics: (a) Its value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable (sometimes called the "underlying"). (b) It requires no initial net investment that is smaller than would be required for other types. (c) It is settled at a future date.

Dealing securities

Securities acquired and held with the intention of reselling them in the short-term.

Defined benefit plan

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and/or years of service.

Disintermediation

The term often used to describe borrowers raising funds directly from the capital markets rather than from the banking sector. This is usually only undertaken by borrowers with the strongest credit ratings.

Documentary bill

A Bill of Exchange that is accompanied by various documents, such as a Bill of Lading, an invoice and an insurance policy.

Documentary credit

A letter of credit that stipulates the documents that must be produced in order for payment to be made.

Draft

A term generally synonymous with Bill of Exchange but sometimes used specifically in the context of inter-Bank bills. A banker's draft, payable on demand, drawn by or on behalf of a Bank.

E

Effective interest method

The method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

GLOSSARY OF FINANCIAL/BANKING TERMS

Equity instrument

Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Expected Credit Loss

The weighted average of credit losses with the respective risks of a default occurring as the weights.

F**Fair value**

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fixed charge

A charge on specific property, usually freehold or leasehold property or plant and machinery, given under a legal mortgage.

Financial instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Floating charge

A charge, taken by a lender to secure an advance upon property, such as stock, debtors, or cash, that permits the Company to continue using and disposing of those assets in connection with its ordinary business. Such a charge becomes fixed in the event of the Company's default.

Foreclosed properties

Properties acquired in full or partial settlement of debts, which will be held with the intention of resale at the earliest opportunity.

Foreign exchange income

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan rupees on the balance sheet date at prevailing rates which differ from those rates in force at inception or on the previous balance sheet date. Foreign exchange income also arises from trading in foreign currencies.

Forward contract

A contract that commits two parties to an exchange at a specific future date under terms set out at the contract date.

Forward rate

The price of currency with a maturity beyond the spot date. Forward rates may be either the same in price as spot rates or different. In the first case, the forward rate is flat. In the second case, the price is either higher, at a premium, or lower, at a discount.

Forward rate agreement (FRA)

An agreement to exchange payments at a specified future date based on the difference between a particular interest rate index (e.g. LIBOR) and an agreed fixed rate.

G**Group**

A group is a parent and all its subsidiaries.

Guarantees

Primarily represent irrevocable assurances that a Bank will make payments in the event that its customer is unable to perform its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H**Hedging**

A methodology used to cover against risk of unfavourable price movements (interest rates, prices, commodities, etc).

Held-to-maturity investments

A financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intent and ability to hold to maturity, other than those that the entity on initial recognition elects to designate as held-for-trading or available-for-sale, or that meet the definition of loans and receivables.

I**Impairment**

This arises due to decline in recoverable amount below carrying amount.

Indemnity

An agreement whereby a person agrees to bear any loss that is suffered by a party to a contract to which he himself is not a party. The person giving the indemnity assumes primary liability, unlike a guarantor who assumes secondary liability.

Intangible assets

An identifiable non-monetary asset without a physical substance.

Interest rate risk

The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest in suspense

The interest due on non-performing assets.

Interest margin

Net interest income as a percentage of average interest-earning assets.

Investment property

A property (land or a building) held to earn rentals or for capital appreciation or both, rather than for: (a) use in the supply of goods or services or for administrative purposes; or (b) sale in the Ordinary course of business.

K**Key management personnel**

Those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity.

Key Performance Indicators (KPIs)

KPIs are quantifiable measurements, agreed beforehand that reflects the critical success factors of a company.

L**Lease**

A contract, or part of contract that conveys the right to use as asset (the underline asset) for a period of time in exchange for consideration.

Letter of credit (LC)

A document issued by a bank, requesting another bank or banks to advance money to a third person, up to a certain amount, in accordance with the terms and conditions set out in the document.

Liquidity risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquid assets ratio

Liquid assets expressed as a percentage of total liabilities other than shareholders' funds.

Loss allowance

The allowance for expected credit losses on financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and the provision for expected credit losses on loan commitments and financial guarantee contracts.

M**Mark to market**

The policy to periodically revaluing positions up or down to their current market or fair value.

Market risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: currency risk, interest rate risk, and other price risk.

Minority interest

The proportion of the profit or loss and net assets of a subsidiary attributable to equity interest that are not owned, directly or indirectly through subsidiaries, by the Parent.

Mortgage

A lien on real property used to secure a borrowing.

N**Negotiable instrument**

A security or other financial instrument which can be freely sold to a third party (i.e. negotiated). Bank notes, bearer bonds, Bills of Exchange and cheques are normally negotiable instruments.

Net interest margin

Interest income as a percentage of Average Interest Earning Assets.

Non-performing loan

A loan where principal or interest payments are not being made on the due dates or where the borrower is failing to meet some other term or condition of the loan. Non-performing loans are frequently allocated non-accrual status.

GLOSSARY OF FINANCIAL/BANKING TERMS

Nostro account

A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank. At the other Bank, the deposit is called a nostro account.

O**Objective evidence**

Information based on facts that can be proved through analysis, measurement, observation and other such means of research.

Off-balance sheet transactions

Transactions not recognised as assets or liabilities in the balance sheet but which give rise to contingencies and commitments.

P**Position**

The netted total commitments in a given currency or interest rate. A position can be either flat or square (no exposure), long (more currency bought than sold overbought) or short (more currency sold than bought oversold).

Prime rate

The interest rate which a bank charges its most creditworthy corporate customers.

Promissory note

An unconditional promise in writing made by one person to another, signed by the promisor, engaging to pay on demand or at a fixed or determinable future time a fixed sum to or to the order of, a specified person or to bearer.

R**Related parties**

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Repo

Jargon for sale and repurchase agreement.

Reserve assets

Assets of a financial institution which form part of its reserve requirements with the Central Bank.

Reverse repo

The opposite of a repo, i.e. a purchase and resale agreement.

Revolving credit

A line credit that has terms permitting successive drawings and payments at the borrower's discretion. The funds available to the borrower are replenished by any repayments of principal.

Right of use asset

An asset that represents a lessee's right to use an underlined asset for the lease term.

Risk-weighted assets

On-balance sheet assets and the credit equivalent of off-balance sheet assets multiplied by the relevant risk weighting factors.

S**Securitisation**

This involves the transfer of a block of income producing assets to a vehicle company that finances the purchase through the issue of debt (usually notes of commercial paper).

Segmental analysis

Analysis of financial information by segments of an enterprise specifically, the different geographical areas in which it operates. Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

Settlement date

The date on which a securities transaction is completed by actual exchange of securities for cash.

Short position

An excess of liabilities (and/or forward sale contracts) over assets (and/or forward purchase contracts). A dealer's position when the net of purchases and sales leaves a net sold or oversold position.

Subsidiary company

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Suspense account

An account used to record items temporarily which are held subject to clarification and transfer to the appropriate account.

Syndication loan

A loan arrangement in which a number of banks, in a form of joint venture, provides funds which they would individually be unwilling or unable to provide. Syndications are used for customers whose scale of financing is too great for any single Bank to accommodate without distorting its loan portfolio.

T**Time deposit**

An interest bearing deposit account which is subject to withdrawal only after a fixed term.

Tier I capital (Common Equity Tier I – CET I)

Common Equity Tier I (CET I) is a component of Tier I Capital that consists mostly of stated capital. It is a capital measure that was introduced as precautionary measure to protect the economy from a financial crisis.

Tier I capital (Additional Tier I Capital – AT I)

Additional Tier I Capital (AT I) is a component of Tier I Capital that comprises securities that are subordinated to most subordinated debt, which have no maturity, and their dividends can be cancelled at any time.

Tier II capital

Capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total capital

The sum of Tier I capital and Tier II capital. Trading Financial Assets and Liabilities A financial asset or financial liability is classified as held-for-trading if it is: (a) Acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) Part of a portfolio of identified financial instruments that are managed together for which there is evidence of a recent actual pattern of short-term profit taking; or (c) A derivative (except for a derivative that is designated and effective hedging instrument).

Transaction costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Treasury bonds (T-Bond)

A long-dated security issued by the Central Bank of Sri Lanka. T-Bonds carry a coupon rate of interest.

V**Value added**

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital to Government by way of taxes and retained for expression and growth.

Value at risk (VAR)

A risk management methodology that estimates the potential loss arising from adverse movement in market interest or exchange rates over a defined holding period.

Vostro account

A local currency current account maintained with a bank by another bank (compare with Nostro account).

Y**Yield curve**

A graph showing market interest rates as a function of maturity. Normally, the yield curve is upward sloping; interest rates increase with the term of the instrument.

GRI 102-1, 102-3, 102-5

CORPORATE INFORMATION

Name of the Bank

People's Bank

Legal Status

A licensed commercial bank under the Banking Act No. 30 of 1988 incorporated as a commercial bank by People's Bank Act No. 29 of 1961.

Head Office (Registered Office)

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Email: info@peoplesbank.lk
Web: www.peoplesbank.lk
Swift: PSBKLKX/PSBKLKX 023
VAT Registration No. 409000037-7000

Auditors

Auditor General
Auditor General's Department,
No. 306/72, Polduwa Road,
Battaramulla, Sri Lanka.

Acting Board Secretary

Ms Shyama Wijekoon,
Attorney-at-Law
PGEDBM (IBSL)
Email: shyamaw@peoplesbank.lk

Corporate Banking Division

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Fax: +9411 243 3139
E-mail: cbdadmin@peoplesbank.lk
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Email: fastcash@peoplesbank.lk,
nrfc@peoplesbank.lk,
teletran@peoplesbank.lk
SWIFT: PSBKLKX

People's Card Centre

2nd Floor, No. 1161,
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Email: card@peoplesbank.lk

Subsidiaries of People's Bank

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People's Leasing & Finance PLC

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Subsidiaries of People's Bank

(Subsidiaries of People's Leasing & Finance PLC)

People's Insurance PLC

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People's Leasing Property Development Ltd.

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People's Leasing Fleet Management Ltd.

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People's Micro-Commerce Ltd.

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