

STATE BANK OF INDIA - SRI LANKA BRANCH

FINANCIAL STATEMENTS

31 MARCH 2021



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Independent auditor's report

To the head office management of State Bank of India- Sri Lanka Operations

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of State Bank of India- Sri Lanka Operations (“the Bank”) as at 31 March 2021, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

What we have audited

The financial statements of the Bank, which comprise:

- the statement of financial position as at 31 March 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics.

Other matter

The financial statements of the Bank for the year ended 31 March 2020 were audited by another firm of auditors whose report, dated 17 July 2020, expressed an unmodified opinion on those statements.

Other information

Management is responsible for the other information. The other information comprises the supplemental Basel III disclosures but does not include the financial statements and our auditor's report thereon.

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 T U Jayasinghe FCA, H P V Lakdeva FCA, M D B Boyagoda FCA, Ms W D A S U Perera ACA



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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

A handwritten signature in blue ink that reads 'Pricambhura Casapras'.

CHARTERED ACCOUNTANTS

COLOMBO

30 June 2021

STATE BANK OF INDIA - SRI LANKA BRANCH

Statement of profit or loss and other comprehensive income

(all amounts in Sri Lanka Rupees unless otherwise stated)

	Notes	Year ended 31 March	
		2021	2020
Interest income	24	1,335,161,011	1,629,396,316
Interest expense	25	(313,588,103)	(426,618,905)
Net interest income		1,021,572,908	1,202,777,411
Fees and commission income	26	138,670,854	137,760,187
Other operating income	27	163,533,370	132,662,563
Total operating income		1,323,777,132	1,473,200,161
Impairment charges and other losses	28	18,848,739	9,199,640
Net operating income		1,342,625,871	1,482,399,801
Personnel expenses	29	(141,227,454)	(129,889,654)
Depreciation of property plant and equipment and ROU assets	11/ 12	(64,244,339)	(30,233,805)
Other operating expenses	30	(124,332,074)	(235,793,997)
Total operating expenses		(329,803,867)	(395,917,456)
Operating profit before taxes and levies on financial services		1,012,822,004	1,086,482,345
Taxes and levies on financial services	31	(154,291,872)	(172,280,185)
Profit before income tax		858,530,132	914,202,160
Income tax expense	31	(146,565,615)	(375,145,529)
Profit for the year		711,964,517	539,056,631
Other comprehensive income			
Other comprehensive income to be reclassified to profit and loss in subsequent periods			
Exchange differences on translation of foreign currency capital & reserves	21	297,730,210	364,804,108
Net gain / (loss) on instruments at fair value through other comprehensive income		56,960	1,281,001
Tax expense relating to items that will be reclassified to profit or loss		-	-
Other comprehensive income not to be reclassified to profit and loss in subsequent periods			
Actuarial loss on retirement benefit obligation	17	(36,982,518)	(24,251,306)
Tax expense relating to items that will not be reclassified to profit or loss		-	(389)
Other comprehensive income for the year net of tax		(36,925,558)	(22,970,694)
Total comprehensive income for the year		675,038,959	516,085,937

The notes to the financial statements from pages 8 to 56 form an integral part of these financial statements.

STATE BANK OF INDIA - SRI LANKA BRANCH

Statement of financial position

(all amounts in Sri Lanka Rupees unless otherwise stated)

	Notes	Year ended 31 March	
		2021	2020
Assets			
Cash and cash equivalents	4	2,520,729,336	795,822,759
Balances with Central Bank of Sri Lanka	5	4,832,310,146	868,669,741
Placements with financial institutions	6	3,215,027,769	1,426,456,171
Financial assets at amortised cost			
- Loans and advances to customers	7	24,447,464,478	18,399,121,818
- Debt and other instruments	8	2,284,272,770	4,596,218,669
Financial assets measured at fair value through other comprehensive income	9	298,551,504	297,729,997
Other assets	10	54,282,324	9,791,463
Right of Use (RoU) asset	12	20,589,756	21,599,848
Property, plant and equipment	11	659,849,149	639,095,741
Deferred tax assets	18	54,394,088	53,013,728
Total assets		38,387,471,320	27,107,519,935
Liabilities			
Due to banks	13	706,230,443	697,610,075
Financial liabilities at amortised cost - Due to customers	14	8,229,164,777	4,800,789,738
Financial liabilities measured at amortised cost - other borrowings	15	16,848,619,009	10,028,050,518
Other liabilities	16	159,355,577	104,171,381
Income tax Liability	31.2	78,474,611	129,944,912
Lease liability	12	19,632,630	17,426,364
Employee benefit liability	17	276,173,674	232,475,517
Total liabilities		26,317,650,721	16,010,468,505
Equity			
Assigned capital	19	2,442,827,454	2,442,827,454
Statutory reserve fund	20	402,040,194	367,839,112
Foreign Currency Translation Reserve	21	1,923,327,679	1,625,597,469
OCI reserve	23	557,240	500,280
Retained earnings	22	7,301,068,032	6,660,287,115
Total equity		12,069,820,599	11,097,051,430
Total liabilities and equity		38,387,471,320	27,107,519,935
Contingent liabilities and commitments	38.3.4.1	33,152,113,771	18,751,955,442

The management is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the management by:


 Lilanji Puvimannasinghe
 Head-Operations
 30 June 2021


 Shashi Prabha
 Country Head
 30 June 2021

The notes to the financial statements from pages 07 to 60 form an integral part of these financial statements.

Colombo

STATE BANK OF INDIA - SRI LANKA BRANCH**Statement of changes in equity**

(all amounts in Sri Lanka Rupees unless otherwise stated)

	Assigned capital	Statutory reserve fund	Funds from central office	Support Funds	Foreign Currency translation reserve	OCI Reserve	Retained earnings	Total
Notes								
As at 31 March 2019	1,566,460,000	340,923,557	831,951,309	44,416,145	1,260,793,361	(780,721)	6,172,397,734	10,216,161,385
Profit for the year	-	-	-	-	-	-	539,056,631	539,056,631
Other comprehensive income	-	-	-	-	364,804,108	1,281,001	(24,251,695)	341,833,414
Transfer to statutory reserve fund	-	26,915,555	-	-	-	-	(26,915,555)	-
As at 31 March 2020	1,566,460,000	367,839,112	831,951,309	44,416,145	1,625,597,469	500,280	6,660,287,115	11,097,051,430
Profit for the year	-	-	-	-	-	-	711,964,517	711,964,517
Other comprehensive income	-	-	-	-	297,730,210	56,960	(36,982,518)	260,804,652
Transfer to statutory reserve fund	-	34,201,082	-	-	-	-	(34,201,082)	-
As at 31 March 2021	1,566,460,000	402,040,194	831,951,309	44,416,145	1,923,327,679	557,240	7,301,068,032	12,069,820,599

The notes to the financial statements from pages 8 to 56 form an integral part of these financial statements.

STATE BANK OF INDIA - SRI LANKA BRANCH**Cash flow statement**

(all amounts in Sri Lanka Rupees unless otherwise stated)

	Note	Year ended 31 March	
		2021	2020
Cash flows from operating activities			
Net cash flow from operating activities before income tax	32.1	934,707,685	963,349,431
Operating profit before changes in operating assets and liabilities			
Increase in operating assets	32.2	(11,854,169,027)	(634,442,491)
Increase / (decrease) in operating liabilities	32.3	10,312,748,094	(271,557,852)
Tax paid		(202,514,811)	(165,791,747)
Interest paid		(669,772)	(623,950)
Gratuity paid		(23,231,292)	(22,809,951)
Net cash flow used in operating activities		(833,129,123)	(131,876,560)
Cash flows from investing activities			
Purchase of property plant and equipment	11	(79,511,647)	(476,253,262)
Changes in financial investments - Net		2,311,124,392	795,807,800
Net cash flow generated from investing activities		2,231,612,745	319,554,538
Cash flow from financing activities			
Payments to lease creditor		(1,476,674)	(8,892,134)
Net cash flow used in financing activities		(1,476,674)	(8,892,134)
Exchange differences on translations of foreign currency capital and foreign currency reserves		327,899,629	169,903,121
Net increase in cash and cash equivalents		1,724,906,577	348,688,965
Cash and cash equivalents at the beginning of the year		795,822,759	447,133,794
Cash and cash equivalents at the end of the year		2,520,729,336	795,822,759

The notes to the financial statements from pages 8 to 56 form an integral part of these financial statements.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

(all amounts in Sri Lanka Rupees unless otherwise stated)

1 Corporate information

1.1 General

State Bank of India - Sri Lanka Operations ('the Bank') is a licensed commercial bank governed by Central Bank of Sri Lanka. It is a foreign branch of State Bank of India, which is incorporated in India. The registered office of the Bank is located at No. 16, Sir baron Jayathilake Mawatha, Colombo 01.

1.2 Principal activities and nature of operations

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, corporate and retail banking, personal financial services, foreign currency operations, trade services, dealing in government securities and other related services.

1.3 Date of authorisation for issue

The Financial Statements of State Bank of India – Sri Lanka Operations for the year ended 31 March 2021 were authorised for issue by the local management on 30 June 2021.

2 Summary of significant accounting policies

2.1 Basis of preparation

2.1.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (commonly referred by the term "SLFRS") as issued by Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these financial statements is in compliance with the requirements of the Companies Act No.07 of 2007.

The presentation of these financial statements is in compliance with the requirements of the Banking Act No. 30 of 1988.

2.1.2 Historical cost convention

The financial statements of the Bank have been prepared on a historical cost basis, except otherwise indicated. Further financial assets measured at fair value through other comprehensive income has also been recorded in fair value.

The financial statements are presented in Sri Lankan Rupees, except when otherwise indicated.

2.1.3 Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 34 to the financial statements.

Each material class of similar items is presented separately in the financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

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

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.4 New standards and amendments – applicable 1 April 2020

The bank has applied the following standards and amendments for the first time for their annual reporting periods commencing 1 April 2020

i. Definition of Material – Amendments to LKAS 1 and LKAS 8

The amendments to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout Sri Lanka Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in LKAS 1 about immaterial information.

In particular, the amendments clarify:

- a) that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole; and
- b) the meaning of 'primary users of general-purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

This amendment is effective for the annual periods beginning on or after 1 January 2020.

ii. Definition of a Business – Amendments to SLFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

This amendment is effective for the annual periods beginning on or after 1 January 2020.

iii. Revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- a) increasing the prominence of stewardship in the objective of financial reporting
- b) reinstating prudence as a component of neutrality
- c) defining a reporting entity, which may be a legal entity, or a portion of an entity
- d) revising the definitions of an asset and a liability
- e) removing the probability threshold for recognition and adding guidance on derecognition
- f) adding guidance on different measurement basis, and
- g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

This amendment is effective for the annual periods beginning on or after 1 January 2020.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.4 New standards and amendments – applicable 1 April 2020 (contd)

- iv. Covid-19-related Rent Concessions – Amendments to SLFRS 16
As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. According to the amendment to SLFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

This amendment is effective for the annual periods beginning on or after 1 June 2020.

2.1.5 New standards and amendments but not adopted in 2020

(a) Classification of Liabilities as Current or Non-current – Amendments to IAS 1

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023.

(b) Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.5 New standards and amendments but not adopted in 2020 (contd)

(c) Reference to the Conceptual Framework – Amendments to IFRS 3

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

The following improvements were finalised in May 2020:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

2.1.6 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand in Sri Lankan Rupees unless otherwise stated.

2.1.7 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter-period comparability. The presentation and classification of the financial statements in the previous year are classified, where relevant or better presentation and to be comparable with those of the current year.

2.2 Significant accounting judgements, estimates and assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. Use of available information, estimates and assumptions and application of judgement is inherent in the preparation of financial statements as they affect the application of accounting policies and the recorded amounts in the financial statements. The Bank believes its estimates including the valuation of assets and liabilities as appropriate. Estimates of underlying assumptions are reviewed on a continuous basis. However the actual results may differ from those estimates. The most significant uses of judgements and estimates are as follows:

2.2.1 Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each financial reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are assessed collectively.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.2 Significant accounting judgements, estimates and assumptions (contd)

2.2.1 Impairment losses on loans and advances (contd)

Impairment is calculated as per "Expected Credit Loss (ECL)" calculation, which is an output of complex models with a number of underlying assumptions regarding choice of variable inputs and their interdependencies. Considered accounting judgements and estimates used in ECL include:

- * Company's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life time expected credit loss(LTECL) basis;
- * The segmentation of financial assets when their ECL is assessed on a collective basis;
- * Development of ECL models; including the various statistical formulas and the choice of inputs;
- * Determination of associations between macro - economic inputs such as GDP Growth and the effect on Probability of Default(PDs), Exposure at Default (EAD) and Loss Given Default (LGD);

The impairment loss on loans and advances is disclosed in more detail in Note 2.3.8 and Note 7 to the financial statements.

2.2.2 Write-off

Financial assets (and related impairment allowances) are normally written-off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

2.2.3 Renegotiation

Loans are identified as renegotiated and classified as credit impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition. For retail, renegotiated loans are kept at stage 3 until full settlement.

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring.

2.2.4 Estimation uncertainties and judgements made in relation to lease accounting

The estimation uncertainties and judgements made in relation to lease accounting is disclosed in more detail in Note 2.3.18 and Note 12 to the financial statements.

2.2.5 Employee benefit liability - gratuity

The cost of the defined benefit plan – gratuity is determined using an actuarial valuation. Actuarial valuation involves making assumptions about discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. The details of the employee benefit liability are disclosed in Note 17 to the financial statements.

2.2.6 Measurement of property plant and equipment

All Property, plant and equipment is initially recorded at cost and subsequently at cost less depreciation and less any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items and also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.2 Significant accounting judgements, estimates and assumptions (contd)

2.2.7 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities disclosed in the financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and inputs such as discount rates. The valuation of financial instruments is described in more detail in Note 35.

2.2.8 Income tax and other taxes

The Branch is subject to income tax and other tax such as Value Added Tax, National Building Tax and Crop Insurance Levy specifically levied on the Banking and financial sector. The calculations are based on the provisions enacted as per the relevant Acts and guidelines published by Inland Revenue Department. The Branch recognises liabilities for any pending tax matters with the tax authorities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be set off. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. The details of the deferred tax asset are described in more detail in Note 2.3.17 and Note 18 to the financial statements.

2.3 Summary of significant accounting policies

2.3.1 Functional and presentation currency

The Bank's local operations comprise of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU).

These financial statements of State Bank of India – Sri Lanka Operations (“Bank”) have been prepared by amalgamating the results of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU) operations and the financial position of the both units. Each unit determines its own functional currency. Accordingly the functional currency of the Domestic Banking Unit is Sri Lankan Rupees and the Foreign Currency Banking Unit is United States Dollars. The presentation currency for both units is Sri Lankan Rupee.

Transactions and balances

Transactions in foreign currencies are initially recorded at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the reporting date. All differences arising are taken in to statement of comprehensive income. 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 dates of recognition.

Accordingly, the results and financial position of Foreign Currency Banking Unit (FCBU) are translated to Sri Lankan Rupees as follows:

The assets and liabilities of Foreign Currency Banking Unit operations are translated to Sri Lankan Rupees at spot exchange rates at the reporting date while the capital of Foreign Currency Banking Unit is translated at historical rate. The income and expenses of the Foreign Currency Banking Unit operations are translated at monthly average rates.

Foreign currency differences arising on the translation of FCBU operations to presentation currency are recognised in other comprehensive income.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.2 Fair value measurement

Fair value related disclosures for assets measured at fair value or financial instruments that are not measured at fair value, for which fair values are disclosed, are summarised in Note 35 to the financial statements.

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

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

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, as described below:

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

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The management determines the policies and procedures for both recurring and non- recurring fair value measurements.

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

2.3.3 Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with central banks (the Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a reserve against all deposit liabilities denominated in Sri Lankan Rupees. The reserve should be maintained for an amount equal to 2.0% of the total of such rupee deposit liabilities), and highly liquid financial assets with original maturities of three months or less from the date of the acquisition that are subject to and insignificant risk of changes in their fair value, and are used by the bank in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.3.4 Placements with financial institutions

Placements with financial institutions includes short term placements made with banks and other financial institutions and these are carried at amortised cost in the statement of financial position.

2.3.5 Assigned capital

Assigned capital of the bank represent the capital contributions made to the Branch by the Head office.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.6 Statutory reserve fund

Five per centum of profits after tax is transferred to the statutory reserve fund as required by section 20(1) of the Banking Act No 30 of 1988. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No 30 of 1988. Transfers made during the year from Retained earnings to Statutory Reserve Fund is LKR 34,201,082 (Note 20).

2.3.7 Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial measurement and subsequent measurement of financial instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and business model for managing those instruments. Financial instruments are measured at either;

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The bank holds the following financial instruments:

Financial assets	Category	Carrying Value	Carrying Value as
		as of 31.03.2021	of 31.03.2020
Cash and cash equivalents	Amortised cost	2,520,729,336	795,822,759
Balances with Central Bank of Sri Lanka	Amortised cost	4,832,310,146	868,669,741
Placement with financial institution	Amortised cost	3,215,027,769	1,426,456,171
Other financial assets	Amortised cost	260,000,000	200,000,000
Loans and advances to customers	Amortised cost	24,447,464,478	18,399,121,819
Investment in government securities	Amortised cost	2,024,273,211	4,425,554,945
Investment in government securities - T Bills	FVOCI	297,464,264	296,699,717
Investment in unquoted shares	FVOCI	500,000	500,000
Financial liabilities			
Due to banks	Amortised cost	706,230,443	697,610,075
Due to customers	Amortised cost	8,229,164,777	4,800,789,738
Other borrowings	Amortised cost	16,848,619,009	10,028,050,518

(a) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL.

- The asset is held within a business model whose objective is to hold asset to collect contractual cash flows; and
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains / (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.7 Financial instruments – initial recognition and subsequent measurement (contd)

(b) Financial assets measured at FVOCI

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains / (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains / (losses), and impairment expenses are presented as separate line item in the statement of profit or loss.

(c) Financial assets measured at FVTPL

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss.

A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains / (losses) in the period in which it arises.

(d) Financial liabilities - Subsequent measurement

Bank's financial liabilities include due to customers, due to banks, borrowings and other financial liabilities.

The subsequent measurement of financial liabilities depends on their classification as follows:

Due to customers / banks

Due Customers / banks include deposits and are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income Statement through the effective interest rate method (EIR) amortisation process.

Borrowings / other financial liabilities

After initial measurement, borrowings and other financial liabilities are subsequently measured at amortised cost using EIR. Amortised cost is calculated by taking in to account any discount or premium on the issue and costs that are an integral part of the EIR.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.8 Impairment of financial assets

The Bank assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or FVOCI which mainly include loans & advances and financings, investments (other than equity investments), interbank placements, loan commitments and financial guarantees. The Bank recognises a loss allowance and provisions for such losses at reporting date. The measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank's approach leveraged the existing regulatory capital models and processes for Bank's loan portfolios that use the existing Internal Rating based and behavioral credit models. ECL is calculated by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which are measured as 12-month ECL:

- Instruments that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

* Stage 1 – A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

* Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

* Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

For financial assets in Stage 1 and Stage 2, the Bank calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount (i.e., without deduction for ECLs). Interest income for financial assets in Stage 3 is suspended and included in loan impairment.

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

- Probability of default (PD) - An estimate of the likelihood of default over a given time horizon.
- Loss given default (LGD) - An estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.
- Exposure at Default (EAD) - An estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Further any impact on Covid - 19 outbreak, to the impairment of financial assets have been considered and relevant impairment charge has been recognized appropriately.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.9 De-recognition of financial assets and financial liabilities

(i) Financial assets

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred substantially all the risks and rewards of the asset

(ii) Financial liabilities

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

2.3.10 Derivative financial instruments

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

2.3.11 Reverse repurchase agreements

Securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Interest Income' and is accrued over the life of the agreement using the effective interest rate.

2.3.12 Property plant and equipment

Property, plant and equipment are stated at cost excluding cost of day to day servicing, less accumulated depreciation and accumulated impairment value, if any. The Bank reviews its assets residual values, useful lives and method of depreciation at each reporting date. Judgement by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Depreciation is calculated using the reducing balance method other than for computer hardware and premises to write down the cost to their residual values over their estimated useful lives from the time asset is placed in use. Land is not depreciated. Management has re-assessed the useful life of the assets during the period and changed the useful life of assets with effect from 01.04.2020. The estimated useful lives are

Premises	50 Years
Motor vehicles	10 Years
Furniture, fixtures and fittings	10 Years
Office Equipment	10 Years
Computer Software	1 Year

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 de-recognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Other operating income" or "Other operating expense" as appropriate in the Statement of comprehensive income in the year the asset is derecognised.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.13 Recognition of the Loans and Receivable under COVID – 19 Moratorium Scheme

Modifications to the cash flows of the loans and receivables due to the COVID 19 outbreak considers as 'non-substantial', thus does not result in derecognition of the financial assets in accordance with SLFRS 9 - "Financial Instruments". Accordingly, modifications gain/loss shall be charged to profit or loss immediately. In the determination process the management applied professional judgement by comparing the modification loss as against carrying value of the asset and the decision were taken based on the materiality of the gain / loss.

2.3.14 Impairment of non-financial assets

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

2.3.15 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting letter of credit, guarantees and acceptances. The financial guarantee liability is initially measured at fair value and subsequently at the higher of: the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments and; the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from contracts with customers. Any increase in the liability relating to financial guarantee is recorded in the income statement in "impairment charge". The premium received is recognised in the income statement in "fees and commission income" on a straight-line basis over the life of the guarantee.

2.3.16 Employee benefit liability

(a) Defined benefit plan - gratuity

The Bank measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the actuarial valuation method. The actuarial valuation involves making assumptions about discount rate, future salary increase rate and mortality rates etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Accordingly the employee benefit liability is based on the actuarial valuation as at 31 March 2021 carried out by Messrs. Actuarial and Management Consultants (Private) Limited, actuaries. Refer Note 17 to the financial statements for details on Gratuity.

The gratuity liability is not externally funded.

(b) Defined contribution plans - Employees' provident fund and employees' trust fund

Employees are eligible for Employees' provident fund contributions and Employees' trust fund contributions in line with the respective statutes and regulations. The Bank contributes 12% of gross emoluments of employees to an approved private provident fund and 3% to the Employees' Trust Fund respectively whilst the employees contribute 8% of their gross salary to the Employees' provident fund.

2.3.17 Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.18 Taxes

Current income tax

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

Income tax on profits from Domestic Banking Unit and Foreign Currency Banking Unit is calculated at the rate of 24%.

Deferred tax

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Value Added Tax (VAT) on financial services

During the year, Bank's total 'value addition' was subjected to 15% VAT on financial services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments there to.

2.3.19 Leases

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.20 Revenue recognition

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

a) Interest income and expenses

For all financial instruments interest income or expense is recorded using Effective Interest Rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes in to account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest Income' for financial assets and 'Interest Expense' for financial liabilities.

b) Fee and commission income

The Bank earns fees and commissions from a diverse range of services it provides to customers. Fee income can be divided to following categories,

(i) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contract with customers, including significant payment terms, and the related revenue recognition policies.

Types of Services	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and Corporate Banking Services	<p>The bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions and servicing fees</p> <p>Fees for ongoing account management are charged to the customers account on a monthly basis. The bank sets the rates separately for Retail and Corporate Banking customers in each jurisdiction on an annual basis.</p> <p>Transaction based fees for interchange, foreign currency transactions and overdrafts are charged to the customers accounts when the transaction takes place.</p> <p>Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the bank.</p>	<p>Revenue from account service and serving fees is recognised overtime as the services are provided</p> <p>Revenue related to transactions is recognised at the point in time when the transaction takes place</p>

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.20 Revenue recognition (contd)

b) Fee and commission income (contd)

(ii) Fee income from providing transaction services

Fees arising from providing transaction services including account service fees is recognised as the related services are performed.

c) Net trading income

Net trading income comprise of results arising from trading activities including gains and losses on foreign exchange forward contracts.

d) Dividend income

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

e) Other income

Other income is recognised on an accrual basis.

f) Other expenses

All other expenses have been recognised in the financial statements as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining capital assets in a state of efficiency has been charged to revenue in arriving at the Bank's profit for the year.

2.3.21 Contingent liabilities and commitments

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

Financial guarantees and undrawn facilities

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank would have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilised credit facilities granted to customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

2.3.22 Cash flow statement

The cash flow statement has been prepared by using the "Indirect Method" in accordance with LKAS 7 on statement of cash flows, whereby profit or loss is adjusted for the effects of translations of a non cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Cash and cash equivalents mainly comprise of cash balances, placements, highly liquid investments of which original maturity of 3 months or less and net of any amount due from banks.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

3 Analysis of financial instruments by measurement basis

	2021	2020
Assets		
Financial assets at amortised cost		
Cash and cash equivalents	2,520,729,336	795,822,759
Balances with Central Bank of Sri Lanka	4,832,310,146	868,669,741
Placement with financial institution	3,215,027,769	1,426,456,171
Other financial assets	-	-
Loans and advances to customers	24,447,464,478	18,399,121,818
Investment in government securities	-	-
Debt instruments	2,284,272,770	4,596,218,669
Total financial amortised cost at amortised cost	37,299,804,499	26,086,289,158
Financial assets measured at fair value through OCI		
Financial assets measured at fair value through other comprehensive income	298,551,504	297,729,997
Total financial assets measured at Fair Value through OCI	298,551,504	297,729,997
	2021	2020
Liabilities		
Financial liabilities at amortised cost		
Due to banks	17,554,849,452	10,725,660,593
Due to customers	8,229,164,777	4,800,789,738
Sundry creditors and accrued expenses	53,492,944	59,531,657
Total financial liabilities	25,837,507,173	15,585,981,988

4 Cash and cash equivalents

	2021	2020
Cash in Hand - Local currency	80,170,817	57,800,325
Cash in Hand - Foreign currency	9,425,941	17,852,987
Balances with banks	402,098,772	201,977,483
Balances with Branches	524,241,376	518,191,964
Money at call and short notice	1,504,792,430	-
	2,520,729,336	795,822,759

5 Balances with central bank of Sri Lanka

	2021	2020
Money held at Central Bank of Sri Lanka in Sri Lanka Rupees	11,714,267	168,669,741
Non-statutory balances with Central Bank of Sri Lanka	4,820,595,879	700,000,000
	4,832,310,146	868,669,741

As required by the provisions of section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka. As at 31 March 2021, the minimum cash reserve requirement was 2% of the rupee deposit liabilities of Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

6 Placements with financial institutions

	2021	2020
Other placements with financial institutions	3,215,083,234	1,426,824,121
Impairment charges	(55,465)	(367,950)
	3,215,027,769	1,426,456,171

7 Financial assets at amortised cost - loans and advances

	2021	2020
Gross loans and advances	24,576,584,082	18,518,805,434
Stage 1	23,639,718,194	17,009,398,819
Stage 2	936,108,582	1,428,703,092
Stage 3	757,306	80,703,523
Less ; Accumulated impairment	(129,119,604)	(119,683,616)
Stage 1	(93,004,226)	(81,263,857)
Stage 2	(36,115,378)	(38,419,759)
Stage 3	-	-
Net loans and advances	24,447,464,478	18,399,121,818

7.1 Net loans and advances by product

	2021	2020
Term loans	13,373,263,700	14,048,128,796
Overdraft	2,006,003,439	2,282,923,069
Short term loans	2,563,995,271	1,780,878,138
Trade finance loans	6,405,031,242	222,185,282
	24,348,293,652	18,334,115,285
Staff loans	99,170,826	65,006,533
	24,447,464,478	18,399,121,818

7.2 Gross loans and advances by currency

	2021	2020
Local currency - Sri Lankan Rupees	4,372,095,905	7,408,584,173
Foreign currency	20,204,488,177	11,110,221,261
	24,576,584,082	18,518,805,434

7.3 Impairment allowance for loans and advances to customers

	Stage 1	Stage 2	Stage 3
Opening balance as at 01 April 2020	81,263,857	38,419,759	-
Charge/ (write back) to income statement	11,740,369	(2,304,381)	-
Closing balance as at 31 March 2021	93,004,226	36,115,378	-
	Stage 1	Stage 2	Stage 3
Opening balance as at 01 April 2019	68,105,551	53,066,322	168,079
Charge/ (write back) to income statement	13,158,306	(14,646,563)	(168,079)
Closing balance as at 31 March 2020	81,263,857	38,419,759	-

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

8 Financial assets at amortised cost - debt and other instruments

	2021	2020
Investment in government securities [Note 8.1]	2,024,273,211	4,425,554,945
Investment in other securities	260,000,000	200,000,000
Less : Provision for impairment [Note 8.2]	-	(29,336,276)
Less : FD Provision for impairment	(441)	-
	2,284,272,770	4,596,218,669

8.1 Financial assets at amortised cost - debt and other instruments Investment in government securities

	2021	2020
Government treasury bonds	2,024,273,211	4,425,554,945
	2,024,273,211	4,425,554,945

8.2 Movement in impairment during the year - financial assets at amortised cost - debt and other instruments

	2021	2020
Stage 1		
Opening balance	29,336,276	-
(Write back)/ charge to income statement	(29,336,276)	2,881,631
Other movements	-	26,454,645
Closing balance	-	29,336,276

9 Financial assets measured at fair value through other comprehensive income

	2021	2020
Debt investments at fair value through other comprehensive income		
Investment in government securities - treasury bills	297,964,544	295,918,996
FV adjustment	56,960	1,281,001
	298,021,504	297,199,997
Equity investments at fair value through other comprehensive income		
Unquoted investments		
- Lanka Clear (Private) Limited (50,000 ordinary shares of Rs. 10/- each)	500,000	500,000
- Credit Information Bureau of Sri Lanka (300 ordinary shares of Rs. 100/- each)	30,000	30,000
	530,000	530,000
	298,551,504	297,729,997

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

10 Other assets

	2021	2020
Deposits and prepayments	141,287	1,524,250
Stationery	756,852	677,248
Receivables	4,687,026	1,900,075
ATM settlement receivable	48,560,855	3,610,052
Forex revaluation	135,870	179,749
Miscellaneous assets	434	1,900,089
	54,282,324	9,791,463

11 Property, plant and equipment

11.1 Gross carrying amounts

	Balance As at 01.04.2020	Additions	Disposals/ transfers and write-offs	Currency Translation Adjustment	Balance As at 31.03.2021
At cost					
Freehold building	434,445,412	62,623,550	-	-	497,068,962
Motor vehicles	4,333,333	-	-	-	4,333,333
Computer, furniture and fittings	264,734,548	33,822,371	(1,020,202)	-	297,536,717
Capital work in progress	16,934,274	-	(16,934,274)	-	-
	720,447,567	96,445,921	(17,954,476)	-	798,939,012
Total gross carrying amount	720,447,567	96,445,921	(17,954,476)	-	798,939,012
	Balance As at 01.04.2019	Additions	Disposals/ Transfers and Write-offs	Currency Translation Adjustment	Balance As at 31.03.2020
At cost					
Freehold building	3,220,577	431,224,835	-	-	434,445,412
Motor vehicles	4,333,333	-	-	-	4,333,333
Computer, furniture and fittings	82,112,935	195,398,040	(12,914,862)	138,436	264,734,549
Capital work in progress	167,303,887	456,821,100	(607,190,714)	-	16,934,273
	256,970,732	1,083,443,975	(620,105,576)	138,436	720,447,567
Total gross carrying amount	256,970,732	1,083,443,975	(620,105,576)	138,436	720,447,567

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

11 Property, plant and equipment (contd)

11.2 Accumulated depreciation

	Balance As at 01.04.2020	Charge for the year	Disposals/ transfers and write-offs	Currency Translation Adjustment	Balance as at 31.03.2021
At cost					
Freehold building	8,515,368	9,002,026	-	-	17,517,394
Motor vehicles	4,333,333	-	-	-	4,333,333
Computer, furniture and fittings	68,503,125	49,590,961	(854,950)	-	117,239,136
	<u>81,351,826</u>	<u>58,592,987</u>	<u>(854,950)</u>	<u>-</u>	<u>139,089,863</u>
Total accumulated depreciatio	81,351,826	58,592,987	(854,950)	-	139,089,863
	Balance as at 01.04.2019	Charge for the year	Disposals/ transfers and write-offs	Currency Translation Adjustment	Balance as at 31.03.2020
At cost					
Freehold building	3,120,030	5,395,338	-	-	8,515,368
Motor vehicles	4,333,333	-	-	-	4,333,333
Computer, furniture and fittings	60,090,309	19,371,708	(12,331,912)	1,373,020	68,503,125
	<u>67,543,672</u>	<u>24,767,046</u>	<u>(12,331,912)</u>	<u>1,373,020</u>	<u>81,351,826</u>
Total accumulated depreciatio	67,543,672	24,767,046	(12,331,912)	1,373,020	81,351,826

11.3 Net book values

At cost

	2021 Rs.	2020 Rs.
Freehold building	479,551,568	425,930,044
Motor vehicles	-	-
Computer, furniture and fittings	180,297,581	196,231,424
Capital work in progress	-	16,934,273
	<u>659,849,149</u>	<u>639,095,741</u>
Total carrying amount of property, plant and equipment	659,849,149	639,095,741

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

12 Leases

This note provides information for leases where the Company is a lessee.

(i) Amounts recognised in the statement of financial position.

The statement of financial position shows the following amounts relating to leases;

	Year ended 31 March	
	2021	2020
Right of use assets		
Opening balance	21,599,848	27,066,607
Additions during the year	4,641,260	-
Less- Depreciation charges for the period	(5,651,352)	(5,466,759)
As at 31 March	20,589,756	21,599,848
Lease liabilities		
Opening balance	17,426,364	26,318,498
Additions during the year	3,682,940	-
Add - Interest expenses charged for the period	669,772	623,950
Less- Lease payments made during the period	(2,146,446)	(9,516,084)
As at 31 March	19,632,630	17,426,364

Lease liabilities classified as;

Current	6,759,198	2,146,446
Non- current	12,873,432	15,279,918

(ii) Amounts recognised in the statement of income.

The statement of income shows the following amounts relating to leases;

	Year ended 31 March	
	2021	2020
Depreciation charge of right-of-use assets	5,651,352	5,466,759
Interest expense	669,772	623,950
The total cash outflow for leases	2,816,218	10,140,034

13 Due to banks

	2021	2020
Deposits from other banks - Vostros	706,230,443	697,610,075
	706,230,443	697,610,075

14 Financial liabilities at amortised cost - Due to customers

14.1 Due to customers - by products

	2021	2020
Demand deposits	4,887,479,129	2,272,638,043
Savings deposits	1,021,871,309	855,285,913
Time deposits	2,164,825,026	1,636,747,306
Call deposits	7,937,544	7,753,942
Margin balances	147,051,769	28,364,534
	8,229,164,777	4,800,789,738

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

14 Financial liabilities at amortised cost - Due to customers (contd)

14.2 Due to customers - by currency

Local currency - Sri Lankan Rupees	3,755,977,838	3,123,532,141
Foreign currency - United States Dollar	4,430,652,400	1,614,871,810
Foreign currency - others	42,534,539	62,385,787
	8,229,164,777	4,800,789,738

15 Financial liabilities measured at amortised cost - other borrowings

	2021	2020
Foreign borrowings	16,848,619,009	10,028,050,518
	16,848,619,009	10,028,050,518

16 Other liabilities

	2021	2020
Accrued expenses	22,810,657	23,883,161
Bills payable	31,807,105	-
Other liabilities	17,645,407	2,040,269
Withholding tax liability	85,944	154,104
Sundry Creditors	30,682,287	35,648,496
Deferred commission income	46,178,772	33,663,538
Impairment provision on unfunded facilities [Note 16.1]	10,145,405	8,781,813
	159,355,577	104,171,381

16.1 Impairment provision on unfunded facilities

	2021	2020
Stage 1		
Opening balance	8,781,813	15,531,989
Charge to income statement	1,363,592	(6,750,176)
Closing balance	10,145,405	8,781,813

17 Employee benefit liability

Bank measures the Present Value of Defined Benefit Obligation (PVDBO) with the advice of an actuary using the Projected Unit Credit Method. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Accordingly, the employee benefits obligation is based on the actuarial valuation as at 31 March 2021, carried out by Actuarial & Management Consultants (pvt) Ltd, actuaries.

	2021	2020
As at 1 April	232,475,517	204,092,200
Current service cost	6,699,378	4,491,820
Interest cost	23,247,552	22,450,142
Actuarial loss on retirement benefit obligation	36,982,518	24,251,306
Payments during the year	(23,231,291)	(22,809,951)
As at 31 March	276,173,674	232,475,517

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

17 Employee benefit liability (contd)

The key assumptions used by the management include the following,

	2021	2020
Rate of interest		
Rate of salary increase	8.5%	10.3%
Retirement age	4%	5%
Average future working life of employees	55	55
	18	18

17.1 Net benefit expense categorised under personal expenses,

	2021	2020
Current service cost	6,699,378	4,491,820
Interest cost	23,247,552	22,450,142
	29,946,930	26,941,962

17.2 In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation a sensitivity analysis for all employees assuming the above is as follows;

	2021	2020
1% increase in discount rate	(25,556,925)	(19,698,605)
1% decrease in discount rate	30,900,824	23,558,436
1% increase in salary escalation rate	10,076,871	1,817,045
1% decrease in salary escalation rate	(8,599,578)	(1,742,829)

18 Deferred tax asset

	2021	2020
As at 1 April	53,013,728	56,603,156
Release/ (charge) during the Year	1,380,360	(3,589,428)
As at 31 March	54,394,088	53,013,728

18.1.1 Deferred tax liabilities

Accelerated depreciation allowance for tax purposes -
Property plant and equipment

(12,031,684)	(12,079,416)
(12,031,684)	(12,079,416)

18.1.2 Deferred tax assets

On employee benefit obligations

66,425,772	65,093,144
66,425,772	65,093,144

Net deferred tax asset

54,394,088	53,013,728
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Deferred tax has been determined based on the effective tax rate of 24% (2019 - 28%) ,as per tax laws issued by department of Inland Revenue.

19 Assigned capital and other

	2021	2020
Assigned capital	2,442,827,454	2,442,827,454
	2,442,827,454	2,442,827,454

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

19 Assigned capital and other (contd)

The Bank's assigned capital includes the below;

	2021	2020
Assigned capital	1,566,460,000	1,566,460,000
Funds from central office	831,951,309	831,951,309
Support funds	44,416,145	44,416,145
	2,442,827,454	2,442,827,454

Funds from central office and support funds are fund injected by the headoffice to the Branch in addition to the assigned capital.

20 Statutory reserve fund

	2021	2020
As at 1 April	367,839,112	340,923,557
Transfer from the profits during the year [Note 22]	34,201,082	26,915,555
As at 31 March	402,040,194	367,839,112

20.1 Five per cent of profits after tax is transferred to the Statutory Reserve Fund as required by section 20(1) of the Banking Act No 30 of 1988. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No 30 of 1988.

21 Foreign Currency Translation Reserve

	2021	2020
As at 1 April	1,625,597,469	1,260,793,361
Exchange differences on translations of foreign currency reserves	297,730,210	364,804,108
As at 31 March	1,923,327,679	1,625,597,469

Foreign Currency Translation Reserve represents the effect of currency translation of capital and reserve funds maintained in Foreign Currency Banking Unit due to exchange rate fluctuations.

22 Retained earnings

	2021	2020
As at 1 April	6,660,287,115	6,172,397,734
Profit for the Year	711,964,517	539,056,630
Other comprehensive income for the year	(36,982,518)	(24,251,694)
Transfers to statutory reserve fund [Note 20]	(34,201,082)	(26,915,555)
As at 31 March	7,301,068,032	6,660,287,115

23 OCI Reserve

	2021	2020
As at 1 April	500,280	(780,721)
During the year movement	56,960	1,281,001
As at 31 March	557,240	500,280

The Branch has elected to recognise changes in the fair value of certain debt investments in OCI. These changes are accumulated within the FVOCI reserve within equity.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

24	Interest income	2021	2020
	Placements with Banks and CBSL	212,230,630	261,556,028
	Government securities		
	-Treasury bills	20,128,347	33,113,876
	-Treasury bonds	158,737,504	232,203,285
	Loans and advances to customers	944,064,530	1,102,523,127
		1,335,161,011	1,629,396,316
25	Interest expense	2021	2020
	Due to customers	124,487,686	118,529,084
	Money market and other borrowings	189,100,417	308,089,821
		313,588,103	426,618,905
26	Fees and commission income	2021	2020
	Commission on trade finance facilities	43,957,284	44,829,361
	Commission on guarantees	38,950,326	10,376,734
	Commission on remittances	17,060,315	13,750,743
	Loan Processing Fee	24,485,318	35,952,499
	Commission on SWIFT operations	6,879,545	7,000,466
	Commission on other Banking services	19,853,300	25,850,384
	Deferred income adjustment	(12,515,234)	-
		138,670,854	137,760,187
27	Other operating income	2021	2020
	Dividend income	1,278,500	935,250
	Foreign exchange gain	160,388,576	130,031,161
	Rent income	1,776,832	1,027,071
	Other income	89,462	669,081
		163,533,370	132,662,563
28	Impairment charges/ (reversals) and other losses	2021	2020
	Loans and advances	9,435,989	(1,656,336)
	Sri Lanka Development bonds	(29,336,276)	2,881,631
	Placements with Banks	(312,485)	(3,674,760)
	Fixed deposits	441	-
	Off balance sheet items	1,363,592	(6,750,175)
		(18,848,739)	(9,199,640)
		2021	2020
	Impairment on loans and receivables from other customers	9,435,989	(1,656,336)
	Impairment on Investment and placements	(29,648,320)	(793,129)
	Impairment on off balance sheet obligations	1,363,592	(6,750,175)
		(18,848,739)	(9,199,640)

STATE BANK OF INDIA - SRI LANKA BRANCH**Notes to the financial statements (contd)****29 Personnel expenses**

	2021	2020
Salaries	96,134,596	101,623,479
Employee benefits - defined benefit plan	13,947,632	4,578,549
Employee benefits - defined contribution plan	10,584,497	10,148,746
Employee Provident Fund (EPF)	8,467,598	8,172,713
Employee Trust Fund (ETF)	2,116,899	1,976,033
Bonus	5,129,162	706,648
Other allowances	15,431,567	12,832,232
	141,227,454	129,889,654

30 Other operating expenses

	2021	2020
Auditor's emolument	5,974,167	3,676,713
Professional and legal expenses	2,147,853	3,731,724
Office administration and establishment expenses	9,793,623	13,433,222
Repairs and maintenance of premises, computer and electricity expenses	39,327,536	61,020,544
Advertisement	928,954	2,712,072
Brokerage charges	647,742	1,548,579
Security charges	3,053,531	8,714,677
Head office expenses	12,612,643	10,222,861
Insurance	6,626,162	7,003,133
Donation	-	100,000
Subscription	1,004,262	1,198,517
Loss from disposal of property, plant and equipment	165,252	547,194
Rent, Rates and taxes	18,690,781	96,044,419
Miscellaneous expenses	16,078,744	14,887,414
Nostro accounts maintenance expenses	3,458,052	2,710,614
Promotional expenses	-	3,079,654
License Fees	3,153,000	4,423,984
Lease interest and amortization adjustment on SLFRS 16	669,772	623,950
Other expenses	-	114,726
	124,332,074	235,793,997

31 Income tax and other taxes and levies**31.1 Taxes and levies on financial services**

	2021	2020
Value Added Tax (VAT)	154,288,676	155,313,080
Nations Building Tax (NBT)	-	16,967,105
Debt Repayment Levy (DRL)	3,196	-
	154,291,872	172,280,185

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

31 Income tax and other taxes and levies (contd)

31.2 Income tax expense

	2021	2020
Current income tax		
Current income tax on profit for the year [Note 32.3]	147,945,975	371,556,492
Deferred tax charge / (reversal) for the year	(1,380,360)	3,589,037
	146,565,615	375,145,529
Current tax liability/ (asset)		
Opening balance	129,944,912	(75,819,833)
Current tax for the year	147,945,975	371,556,492
Payments made during the year	(202,514,811)	(165,791,747)
Other adjustments	3,098,535	-
Closing balance	78,474,611	129,944,912

31.3 Reconciliation between current tax expenses and the accounting profit:

	2021	2020
Accounting profit before taxation	1,012,822,004	1,086,482,345
Tax at the applicable tax rate of 24% (2020-28%)	243,077,281	293,350,233
Tax effect from expenses not deductible for tax purposes	267,150,342	269,520,486
Tax effect from Allowable deductions and income not subject to tax	(363,662,008)	(187,725,190)
Tax charge	146,565,615	375,145,529

32 Cash flow information

Cash flows from operating activities

	2021	2020
32.1 Reconciliation of operating profit		
Profit before tax	858,530,132	914,202,160
Loss on disposal of property, plant and equipment	165,252	547,194
Depreciation of property plant and equipment	11 58,592,987	24,767,046
Depreciation of right to use asset	12 5,651,352	5,466,759
Impairment charge / (reversal) for loans and advances	28 9,435,989	(1,656,336)
Impairment reversal for investment and unfunded facilities	28 (28,284,728)	(7,543,304)
Gratuity expense	17.2 29,946,929	26,941,962
Interest on lease creditor	12 669,772	623,950
	934,707,685	963,349,431
32.2 (Increase)/ decrease in operating assets		
Placement with banks	(1,788,259,113)	3,542,573,202
Balances with Central Bank of Sri Lanka	(3,963,640,405)	104,309,615
Loans and advances to customers	(6,057,778,648)	(4,365,389,716)
Other assets	(44,490,861)	84,064,407
	(11,854,169,027)	(634,442,491)
	2021	2020
32.3 (Decrease)/ increase in operating liabilities		
Due to banks (Vostro)	8,620,368	1,575,562,483
Due to customers	3,428,375,039	(1,826,612,148)
Other borrowing	6,820,568,491	-
Other liabilities	55,184,196	(20,508,187)
	10,312,748,094	(271,557,852)

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

33 Related party disclosure

The Bank carries out transactions in the ordinary course of business on an arms length basis at commercial rates with related parties.

Details of significant related party disclosures are as follows,

33.1 Transactions with Key Management Personnel

	2021	2020
Short term employee benefits	4,305,417	5,892,614
	4,305,417	5,892,614
Deposits	7,287,813	5,962,839
	7,287,813	5,962,839

33.2 Transactions with affiliate branches Items in the statement of financial position

	2021	2020
Balances due from Banks (Nostro Balances)		
SBI-Colombo Branch	961,653,020	669,195,267
SBI Colombo Mirror A/C	17,986,507	21,221,846
Euro Mirror A/C FCBU	1,049,726	38,182,795
Inter-Branch Placement	521,603,420	70,400,000
	1,502,292,673	798,999,908

Balances due to Banks (Vostro Balances)

SBI-Kandy Branch	961,653,020	669,195,267
SBI Kandy Branch USD A/C	17,986,507	21,221,846
Euro Mirror A/C DBU	1,049,726	38,182,795
Inter-Branch borrowing	521,603,420	70,400,000
	1,502,292,673	798,999,908

33.3 Transactions with State Bank of India Sri Lanka Operations - Employee Provident Fund Items in the statement of financial position Liabilities

	2021	2020
Saving deposit	118,385,391	102,669,352
	118,385,391	102,669,352

Items in the statement of comprehensive income

Employee benefits - Employee Provident Fund	7,606,795	9,236,689
Interest expense	7,606,795	9,236,689

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

34 Maturity analysis of assets and liabilities

As at 31 March	Within 12 Months	After 12 Months	2021 Total	Within 12 Months	After 12 Months	2020 Total
Assets						
Cash and cash equivalents	2,520,729,336	-	2,520,729,336	795,822,759	-	795,822,759
Balances with Central Bank of Sri Lanka	4,832,310,146	-	4,832,310,146	868,669,741	-	868,669,741
Placements with financial institutions	3,215,027,769	-	3,215,027,769	1,426,456,171	-	1,426,456,171
Financial assets at amortised cost	2,284,272,770	-	2,284,272,770	2,682,376,449	1,913,842,220	4,596,218,669
Loans and advances to customers	15,756,681,570	8,690,782,908	24,447,464,478	7,517,363,968	10,881,757,850	18,399,121,818
Financial assets measured at fair value through other comprehensive income	298,021,504	530,000	298,551,504	297,199,997	530,000	297,729,997
Other assets	54,282,324	-	54,282,324	9,791,461	-	9,791,461
Property, plant and equipment	-	659,849,149	659,849,149	-	639,095,741	639,095,741
Deferred tax asset	-	54,394,088	54,394,088	-	53,013,728	53,013,728
Right of Use (RoU) asset	-	20,589,756	20,589,756	-	21,599,848	21,599,848
Total assets	28,961,325,419	9,426,145,901	38,387,471,320	13,597,680,546	13,509,839,387	27,107,519,933
Liabilities						
Due to banks	706,230,443	-	706,230,443	697,610,075	-	697,610,075
Due to customers	8,227,664,777	1,500,000	8,229,164,777	4,800,789,738	-	4,800,789,738
Other borrowings	14,436,512,753	2,412,106,256	16,848,619,009	3,232,364,534	6,795,685,983	10,028,050,517
Assigned capital	-	2,442,827,454	2,442,827,454	-	2,442,827,454	2,442,827,454
Statutory reserve fund	-	402,040,194	402,040,194	-	367,839,112	367,839,112
Retained earnings	-	7,301,068,032	7,301,068,032	-	6,660,287,115	6,660,287,115
Other reserves	-	1,923,884,919	1,923,884,919	-	1,626,097,749	1,626,097,749
Lease liability	-	19,632,630	19,632,630	-	17,426,365	17,426,365
Current tax liabilities	78,474,611	-	78,474,611	129,944,912	-	129,944,912
Other liabilities	159,355,577	-	159,355,577	104,171,381	-	104,171,381
Employee benefit liability	-	276,173,674	276,173,674	-	232,475,517	232,475,517
Total liabilities	23,608,238,161	14,779,233,159	38,387,471,320	8,964,880,640	18,142,639,295	27,107,519,933

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

35 Fair value measurement

35.1 Fair value measurement hierarchy for assets as at 31 March 2021

35.1.1 Assets measured at fair value

The following table provides an analysis of assets recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorised. The amounts are based on the value recognised in the statement of financial positions. Please refer Note 2.3.2 of the financial statements on accounting policies of fair value measurement.

Bank	Date of valuation	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Rs.	Rs.	Rs.	Rs.
As At 31 March 2021					
Assets measured at fair value					
Financial assets measured at fair value through other comprehensive income :					
Investment in government securities - treasury bills	31-Mar-21	298,021,504	-	298,021,504	-
Unquoted investments in Lanka Clear (Private) Limited and Credit Information Bureau of Sri Lanka	31-Mar-21	530,000	-	-	530,000
		298,551,504	-	298,021,504	530,000

35.1.2 Assets not carried at fair value for which fair values are disclosed

	2021	2020
Other financial assets	12,852,340,021	7,687,167,340
Loans and advances to customers	24,447,464,476	18,399,121,818
	37,299,804,497	26,086,289,158

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Notes to the financial statements (contd)

35 Fair value measurement (contd)

35.2 Fair value of financial assets and liabilities not carried at fair value

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

Assets	2021 Fair Value Rs.	2021 Carrying Value Rs.	2020 Fair Value Rs.	2020 Carrying Value Rs.
Other financial assets	12,852,340,021	12,852,340,021	7,687,167,340	7,687,167,340
	12,852,340,021	12,852,340,021	7,687,167,340	7,687,167,340

Assets for which fair value approximates carrying value

For financial instruments other than "Loans and receivables to other customers", carrying amount is a reasonable approximation of fair value because, for example, they are short term in nature or re-price to current market rates frequently.

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature to reprice to current market rates frequently;

Assets

Cash and cash equivalents
Balances with Central Bank of Sri Lanka

Liabilities

Due to Banks
Other Borrowings
Due to Customers

Fixed rate financial instruments

Carrying amounts are considered as fair values for short term credit facilities. Loans and advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Interest rates based on treasury bond rates with similar tenors with an adjustment for risk premium have been used to arrive at the fair value of debentures and trust certificates.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management

36.1 Bank Risk Management Approach & Risk Culture

We promote a strong risk culture where employees at all levels are responsible for the management and escalation. We expect employees to exhibit behaviors that support a strong risk culture in line with our Code of Business Conduct and ethics. It is the responsibility of Senior Management of SBI SL to establish a robust and pervasive risk culture and clear policies.

Further, in line with bank's global procedure and practices, the bank has developed an integrated framework in order to assess and appropriately manage various risk exposures of SBI SL. The Risk Management & Compliance functions are independent from business lines and reporting directly to the DGM Risk & DGM (Regulatory Compliance of FO) at International Banking Group, Corporate Centre, Mumbai, India.

Risk Management Committee (RCOM) & Escalation Mechanism

The RCOM has the overall responsibility for monitoring the risk management processes in State Bank of India – Sri Lanka Operations (SBI SL). The objectives of RCOM is to derive the most appropriate strategy for SBI SL in terms of the risk taken, expectation of the future and the potential consequences of Pillar I & II risks. The Committee supervise broad risk categories i.e. credit, credit concentration, market, operational, country, residual, liquidity, interest rate, reputational, strategic, compliance and IT/IS risks and have the power to recommend the risk appetite as well as the risk management strategies for SBI SL. The Committee take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the bank and keep Corporate Centre, India informed. Also, RCOM ensure that all strategies conform to the bank's risk appetite and the level of exposure.

A comprehensive Policy Framework

The Bank has set up a comprehensive Integrated Risk Management Framework (IRMF) with the aim to establish a process to effectively identify, measure, manage, control and monitor risks faced by the Bank within its risk appetite while facilitating achievement of strategic goals in the long run preserving and safeguarding the capital of the bank. Risk Management Framework takes into account all plausible risks and uncertainties the Bank is exposed to. The components of the Bank's IRMF include risk governance comprising Board oversight, Management and respective committees, well defined risk capacity, appetite and tolerance levels, Risk and Control Self- Assessment (RCSA), system of internal control, infrastructure, risk culture and contingency planning for business continuity, disaster recovery and contingency funding etc. IRMF is subject to an annual review or more frequently if the circumstances so warrant, taking into account changes in the regulatory and operating environments.

Risk Appetite

The bank has clearly defined Risk Appetite and it clearly communicates its tolerance levels for its material risks in both qualitative and quantitative terms and is a key component of the risk management framework. Aided by the solid Integrated Risk Management Framework, the bank monitors its risk profile using various risk indicators regularly for each risk categories on an ongoing basis and takes remedial action for any deviations to ensure that it is kept within the risk appetite.

Risk Governance

The Risk Management function is independent from business lines and reporting directly to the DGM Risk at International Banking Group, India. DGM Risk –IBG functionally reports to GM (RM & RC) IBG and administratively to CGM (Risk). CGM (Risk) reports to Deputy Managing Director & Chief Risk Officer (DMD & CRO). DMD & CRO reports to Risk Management Committee of the Bank (Board Committee), thereby making risk management an independent function.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.2 Credit risk

36.2.1 Introduction

Credit risk refers to the potential loss resulting from the failure of a customer/ borrower or counterparty to honor its financial or contractual obligations to the Bank. Credit risk can arise from both on and off balance sheet activities consisting of commitments and contingencies. The total credit risk of the Bank constitutes counterparty risk, concentration risk, residual risk and settlement risk. It is managed in line with the Loan policy which is reviewed on an annual basis. For regulatory capital computation purposes, SBI SL uses Basel Standardized Approach. The Bank has adopted stringent credit risk management process to mitigate the risk associated with the loan book by way of following strategic initiatives:

- The SBI Sri Lanka manages credit risk carefully by applying a strict set of criteria while dealing with institutions and individuals of credit worthiness and ensuring exposure to counterparties are appropriately secured. Risk tolerance limits for SBI SL's activities in credit risks are outlined in the Loan policy. A consistent standard have been adapted for the origination, documentation and maintenance of the documents for extension of credit.
- Bank uses a sophisticated Loan Life Cycle Management System (LLMS) which generate credit proposal and Customer Risk Rating against specified parameters. The ratings lie on a scale between SB 1 (zero risk) to SB 16 (default grade) and these ratings are validated Independently by Credit Rating Assessment Validation Committee.
- The Bank has in place a scheme of delegation of Financial Powers for Foreign offices which has a graded authority structure. The Executive Committee of the Central Board (ECCB) has full powers for sanctioning credit facilities. The sanction powers have been delegated down the line to committees of officials at various administrative offices and to individual line functionaries based on total indebtedness and whether the facility is secured or unsecured.
- Prudential risk limits have been stipulated for various risk parameters. Credit risk limits are set by obligator, concentration, industry, and geography/ country. Bank considers bench mark ratios, with flexibility for deviation in deserving cases. The conditions subject to which deviation are permitted and the authority for permitting such deviation should be clearly spelt out in the loan policy.
- Emphasis is given on maintaining a diversified portfolio of risk assets in line with capital desired to support such a portfolio.
- The bank has in place a graded authority structure for delegation of financial powers. All sanctions are subject to report to the next higher authority for control.
- Apart from the above, there are various credit risk mitigating techniques adopted by the Bank viz post sanction loan review mechanism by Loan Review Officer attached to Risk Management department of SBI SL, analysis of various MIS reports, periodical post disbursement monitoring on insurance, revaluation,
- SBI SL has a separate guideline on NPA Management which is incorporated in the Credit Policy. It describes Bank's policy on NPA management, recovery and proactive initiatives to contain net NPAs in conformity with international standards.
- Bank takes a consistent approach towards early problem recognition, classification of problems exposure and remedial action has been adapted.
- Risk based pricing: Pricing is linked to grade of the risk in the exposure. When a borrower's credit risk increases, the Bank demands a higher credit risk premium by way of increasing the interest rate.
- Stress testing for Bank credit portfolio will be conducted at quarterly intervals and results to be analyzed for chalking out appropriate remedial action for risk mitigation.
- Impairment on the potential delinquents by way of reviewing objective evidence assessments by the business units and adequacy of impairment provisions to absorb credit risk of the lending book.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.2 Credit risk (contd)

36.2.1 Introduction (contd)

36.2.3 Credit Concentration Risk

The concentration risk denotes the risk arising from uneven distribution of counterparties, business sectors (Sectorial concentration) or geographical regions (geographical concentration), which is capable of generating losses large enough to affect the solvency.

Concentration risk arises in Bank's assets, liabilities, and off-balance sheet items as well. SBI SL recognizes that there are two types of concentration risks that are pertinent to SBI SL namely, Borrower Concentration and Economic Sector Concentration. Apart from commonly used methods of economic sector and borrower concentration mentioned above, the SBI SL reviews Borrower rating distributions, Age analysis, geographical distribution, country risk, funding concentration etc. for portfolio level monitoring.

The exposure to single borrowers, group borrowers and large borrowers are such exposure limits that are monitored by SBI SL against the prudential limits set by regulators. In addition to the prudential exposure limits, the substantial exposure norms which are in-house limits set within the prudential norms are intended to further help in monitoring credit concentrations. The exposure ceiling is fixed in relation to the Bank's Capital funds. Frequent monitoring and stringent control mechanisms are in place to ensure that the risk of concentrations on different types of exposure tables above are within the tolerance level of the Bank. SBI SL has not exceeded the various tolerance limits set under concentration risk categories. Reports on all substantial exposures are submitted to ALCO or RCOM if there is a deviation from these limits. No breaches have been reported in substandard exposure norms during past one year.

36.3 Country risk

Country risk is the risk that an occurrence within a particular country could have an adverse effect on the Bank directly by impairing the value of the exposures purchased / underwritten or indirectly through an obligor's inability to meet its obligations to the Bank.

The Bank assesses country exposure of countries where the bank has funded and non-funded exposures. The Bank has set maximum exposure limits on all the countries where the Bank has funded and non-funded exposures. These limits are reviewed at regular intervals and all foreign offices are advised accordingly.

The country wise exposure limits and utilization levels are monitored centrally and at foreign office levels through an automated system.

The Board of the Bank has formulated a policy on Country Risk Management and adopted a model for computation of country risk limits across the Bank. The Country Risk evaluation is being reviewed quarterly by the Board (SBI -India) with a provision to review the rating of specific country, based on any major events in that country. Also, country limits and the policy are being renewed every year on the basis of experience gained and requirements.

The country risk is being examined along with credit and other risks by the respective sanctioning authority/ committee which take a holistic view of the credit/ investment proposals at the sanctioning stage. SBI Sri Lanka has not breached any country risk exposure limits for past 12 months.

STATE BANK OF INDIA - SRI LANKA BRANCH**Notes to the financial statements (contd)****36 Risk management (contd)****36.4 Credit risk exposure**

The total gross loans and receivables from all credit customers of the Bank stood at Rs. 24.448 Mn as at 31 March 2021 (31 March 2020 - Rs. 18.399Mn) . Please refer Note 8 for the product wise loans and advances.

36.4.1 Commitments and contingencies

To meet the financial needs of customers, the Bank enters in to various commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

	As at 31 March	
	2021	2020
Guarantees	11,260,245,832	8,362,753,797
Letter of Credit	3,026,028,332	1,491,024,975
Bills for collection	10,828,347,127	4,123,490,390
Advances under collection	2,216,035,041	2,109,140,374
Acceptances	806,612,329	367,906,013
Undrawn commitments	5,014,845,110	2,297,639,893
	33,152,113,771	18,751,955,442

The maximum exposure to credit risk relating to guarantees is the maximum amount the Bank have to pay if the guarantees are called upon. Undrawn commitments consist of facilities granted to customers where the Bank reserves the right to unconditionally cancel or recall the facility at it's discretion.

Pending litigations against the Branch as at 31 March 2021

- 1 Case no DMR03/2021- Money recovery action filed against one of the customers. Action was field on 05/01/2021 to recover the defaulted money. Next step is to issue summons through courts by way of the post and through fiscal to all four defendants. Summons returnable on 04/09/2021.
- 2 This is a leave to appeal application field against the order of the district court in Colombo case no 3902/SPL delivered against our client directing them to reimburse a sum of us LKR 290,000 to the liquidators have given an undertaking that they would not put into effect the said order pending support of the application.
- 3 250/2007- The district court action was filed by state bank of india against the defendant to enforce a loan facility of LKR 1 Million and recovery of same granted to Premier Food Limited wherein the said company and the defendant guranteed the repayment of the said facility. The judgement was delivered in the favour of the Bank insaid case as well as in appeal in the case bearing no 250/2007 there upon write of execution has been field at the register of the district court for the recovery of the claim.
- 4 Case no 230/2018/DSP- This is application made by the Bank under and in term of section 16(1) of recovery of loan by banks ACT 01 of 1990 to, inter alia ,obtain an order foe delivary of possessio of the property situated in Colombo which was sold by the Bank in terms of the provisions of the recovery of the loans by banks (SP) ACT 01 of 1990, to recover a sum of LKR 91,801,641.15 due and owing from J & D Poly Packing Pvt limited . The said amount is due from several term loans and overdraft Facilities granted to the defendant by the Bank and the said property was mortgaged to Bank at the time of obtaning such credit facilities as security.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.4.2 Analysis of risk concentration

The following table shows the risk concentration by industry for the risk concentration related components of the statement of financial position.

As at 31 March 2021	Agriculture and fisheries	Financial services	Government	Manufacturing	Construction and housing	Traders	Other	Total
Cash and cash equivalents	-	2,520,729,336	-	-	-	-	-	2,520,729,336
Balances with Central Bank of Sri Lanka	-	4,832,310,146	-	-	-	-	-	4,832,310,146
Placements with financial institution	-	3,215,027,769	-	-	-	-	-	3,215,027,769
Financial assets at amortised cost	-	2,284,272,770	-	-	-	-	-	2,284,272,770
Financial assets measured at fair value through other comprehensive income	-	298,551,504	-	-	-	-	-	298,551,504
Other Assets	-	789,115,317	-	-	-	-	-	789,115,317
Total other financial assets	-	13,940,006,842	-	-	-	-	-	13,940,006,842
Loans and advances to customers								
Term loans	1,010,086,166	4,042,206,150	-	1,637,748,383	6,043,309,525	644,287,444	63,951,901	13,441,589,569
Overdraft	67,644,114	-	-	1,265,710,814	-	654,628,746	56,480,480	2,044,464,154
Short term loans	146,040,138	-	-	105,123,179	-	2,328,621,056	411,401	2,580,195,774
Trade finance loans	-	6,411,026,640	-	-	-	-	-	6,411,026,640
Staff loans	-	-	-	-	68,276,841	-	31,031,104	99,307,945
Gross loans and advances	1,223,770,418	10,453,232,790	-	3,008,582,376	6,111,586,366	3,627,537,246	151,874,886	24,576,584,082
Allowance for impairment losses	(31,001,861)	(7,376,420)	-	(39,877,012)	(20,884,867)	(29,691,373)	(288,071)	(129,119,604)
Net loans and advances	1,192,768,557	10,445,856,370	-	2,968,705,364	6,090,701,499	3,597,845,873	151,586,815	24,447,464,478
Total	1,192,768,557	24,385,863,212	-	2,968,705,364	6,090,701,499	3,597,845,873	151,586,815	38,387,471,320
As at 31 March 2020								
Cash and cash equivalents	-	795,822,759	-	-	-	-	-	795,822,759
Balances with Central Bank of Sri Lanka	-	868,669,741	-	-	-	-	-	868,669,741
Placements with financial institution	-	1,426,456,171	-	-	-	-	-	1,426,456,171
Financial assets at amortised cost	-	4,596,218,669	-	-	-	-	-	4,596,218,669
Financial assets measured at fair value through other comprehensive income	-	297,729,997	-	-	-	-	-	297,729,997
Other Assets	-	723,500,780	-	-	-	-	-	723,500,780
Total other financial assets	-	8,708,398,117	-	-	-	-	-	8,708,398,117

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.4.2 Analysis of risk concentration (contd)

	Agriculture and fisheries	Financial services	Government	Manufacturing	Construction and housing	Traders	Other	Total
Loans and advances to customers								
Term loans	1,368,351,907	5,414,257,539	-	2,119,754,524	4,342,561,008	807,830,951	63,834,266	14,116,590,195
Overdraft	86,668,081	-	-	1,010,050,362	-	974,924,709	248,544,365	2,320,187,517
Short term loans	145,434,492	-	-	36,158,230	-	991,746,284	-	1,173,339,006
Trade finance loans	-	204,202,062	-	643,664,794	-	-	-	847,866,856
Staff loans	-	-	-	-	39,537,897	-	21,283,964	60,821,861
Gross loans and advances	1,600,454,480	5,618,459,601	-	3,809,627,910	4,382,098,905	2,774,501,944	333,662,595	18,518,805,435
Allowance for impairment losses	(17,000,519)	(5,651,486)	-	(47,902,892)	(24,716,761)	(22,859,165)	(1,552,794)	(119,683,617)
Net loans and advances	1,583,453,961	5,612,808,115	-	3,761,725,018	4,357,382,144	2,751,642,779	332,109,801	18,399,121,818
Total	1,583,453,961	14,321,206,232	-	3,761,725,018	4,357,382,144	2,751,642,779	332,109,801	27,107,519,935

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.4.3 Credit quality analysis

Credit quality of financial assets

The table below shows the credit quality by class of financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

As at 31 March 2021	Neither past due nor impaired	Past due but not individually impaired	Individually Impaired	2021 Total
Cash and cash equivalents	2,520,729,336	-	-	2,520,729,336
Balances with Central Bank of Sri Lanka	4,832,310,146	-	-	4,832,310,146
Placements with financial institutions	3,215,083,234	-	-	3,215,083,234
Financial assets at amortised cost				-
- Gross loans and advances to customers	24,575,826,776	-	757,306	24,576,584,082
- Term loans	13,440,832,263	-	757,306	13,441,589,569
- Overdraft	2,044,464,154	-	-	2,044,464,154
- Short term loans	2,580,195,774	-	-	2,580,195,774
- Trade finance loans	6,411,026,640	-	-	6,411,026,640
- Staff loans	99,307,945	-	-	99,307,945
- Debt and other instruments	2,284,273,211	-	-	2,284,273,211
Financial assets at fair value through other comprehensive income	298,551,504	-	-	298,551,504
Contingencies and commitments	33,162,259,176	-	-	33,162,259,176
Total	67,673,950,149	-	757,306	67,674,707,455
As at 31 March 2020				
	Neither past due nor impaired	Past due but not individually impaired	Individually Impaired	2020 Total
Cash and cash equivalents	795,822,759	-	-	795,822,759
Balances with Central Bank of Sri Lanka	868,669,741	-	-	868,669,741
Placements with financial institutions	1,426,824,121	-	-	1,426,824,121
Financial assets at amortised cost				
- Gross loans and advances to customers	18,438,101,912	-	80,703,523	18,518,805,435
- Term loans	14,044,193,716	-	72,396,479	14,116,590,195
- Overdraft	2,311,880,473	-	8,307,044	2,320,187,517
- Short term loans	1,173,339,006	-	-	1,173,339,006
- Trade finance loans	847,866,856	-	-	847,866,856
- Staff loans	60,821,861	-	-	60,821,861
- Debt and other instruments	4,625,554,945	-	-	4,625,554,945
Financial assets at fair value through other comprehensive income	297,729,997	-	-	297,729,997
Contingencies and commitments	18,760,737,239	-	-	18,760,737,239
Total	45,213,440,714	-	80,703,523	45,294,144,237

Note : Past due loans include any loan that are in arrears for one day and above.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.4.3 Credit quality analysis (contd)

Maximum exposure to credit risk by risk rating (SLFRS 09)

Bank's financial instruments portfolio is divided into Funded, Unfunded, Investments & Placements. These categories are further sub categorised into SME, Corporate & Retail and credit quality of such facilities are determined as below based on internal risk rating.

Investments, Placements and Money at Call are based on Fitch Credit Ratings

Investments, placements and money at call	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
AA-	4,376,661,778	4,376,661,778	-	-
A+	603,213,886	603,213,886	-	-
	4,979,875,664	4,979,875,664	-	-

Loans & Advances are based on Internal Ratings and External ratings are mapped to Internal ratings

Loans and advances to customers	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
Rating 1-3	10,596,859,876	10,596,859,876	-	-
Rating 4-7	11,275,867,267	11,146,898,454	128,968,813	-
Rating 8-9	1,644,204,611	1,298,539,998	345,664,613	-
Rating 10-13	835,660,937	376,657,247	459,003,690	-
Rating 14-16	-	-	-	-
Unrated	223,991,391	220,762,619	2,471,466	757,306
	24,576,584,082	23,639,718,194	936,108,582	757,306

Financial assets are classified to stage 2, if they have a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. Criteria used by the bank in order to categories as Stage 2 are as follows.

- Internal ratings 7 to 9A or facilities with external ratings B to C will be directly categorized in stage 2
- 2 or more grade: for facilities which were internally rated 3 to 4 (or external ratings of AAA to BBB)
- 1 or more grade: for other facilities which were internally rated 5 to 7 (or external ratings from BBB to BB and below) at inception

stage 3 financial instruments are considered to be impaired and ECL is calculated measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate

When assessing collective impairment, exposures outstanding from customers in industries identified by the Bank having an elevated risk e.g. tourism & hospitality were classified as stage 2 & 3 and assessed for lifetime ECLs. Further, all customers within a debt moratorium or a debt restructuring arranged on their request, are closely monitored on an ongoing basis for any adverse developments in the customers' credit quality and assessed on a case – by – case basis whether the movement to Stage 2 or whether consideration as credit-impaired would be necessary. In addition to the on-going monitoring process, when assessing the expected credit losses, the Bank considered the potential impact of the COVID-19 outbreak based on the available information

STATE BANK OF INDIA - SRI LANKA BRANCH**Notes to the financial statements (contd)****36 Risk management (contd)****36.4.3 Credit quality analysis (contd)****Aging of past due but not individually impaired financial assets**

Financial assets except for mentioned in below, are not past due and are not individually impaired.

	Past due below 3 months but not impaired	Past due 3-12 months but not impaired	Past due more than 12 months but not impaired	Total past due but not impaired
Term loans	2,471,466	-	-	2,471,466
Overdraft	-	-	-	-
Short term loans	-	-	-	-
Trade finance loans	-	-	-	-
Staff Loans	-	-	-	-
Total	2,471,466	-	-	2,471,466

Please refer Note 8 for the individual and collective impairment with respect to loans and advances to customers.

The Bank does not rebut the 30 DPD presumption as a key SICR criterion. Thus any financial instrument with 30 DPD are classified as Stage 2. As of 31.03.2021 no financial instrument is more than 30 DPD except for stage 3 classified facilities.

Definition of default

The Bank has set out the following definition of default.

- Days Past Due: Exposures that have one or more instalment past due for more than 90 days. This will be consistent with the rebuttable criteria set out by SLFRS 9 and existing practice of the Bank.
- Rating: Customers rated 10 to 12 (not applicable in the case of retail facilities).
- Event driven defaults: this will be based on the customer specific factors such as breach of covenants which are deemed material, declaration of bankruptcy by the customer, death of borrower and other customer specific factors. this will be applied on a case by case basis.

Age analysis of impaired financial assets

Apart from risk ratings and DPD data, following will be considered to determine significant increase in credit risk of the customers.

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When a significant change in the geographical locations of a customer or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument.
- When the value of collateral is significantly reduced. (Limits shall be set and documented by SBI SL).
- When a customer is subject to litigation, that may significantly affect the performance.
- Frequent changes in the senior management of an institutional customer.
- Delay in the commencement of business operations/projects by more than one year.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.
- When the customer is deceased / insolvent.
- When the bank is unable to contact or find the customer.
- When the bank is unable to contact or find the customer.
- A fall of 50% or more in the turnover or profit before tax of the customer as compared to the previous year.
- Erosion in net-worth by more than 25% as compared to the previous year.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.4.4 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement.

As at 31 March 2021	Maximum exposure to credit risk	Net collateral value	Net exposure
Cash and cash equivalents	2,520,729,336	-	2,520,729,336
Balances with Central Bank of Sri Lanka	4,832,310,146	-	4,832,310,146
Placements with financial institutions	3,215,027,769	-	3,215,027,769
Loans and advances to customers	24,447,464,478	19,947,011,242	4,500,453,236
Debt and other instruments	2,284,272,770	-	2,284,272,770
Financial assets measured at fair value through other comprehensive income	298,551,504	-	298,551,504
	37,598,356,003	19,947,011,242	17,651,344,761
As at 31 March 2020	Maximum exposure to credit risk	Net collateral value	Net exposure
Cash and cash equivalents	795,822,759	-	795,822,759
Balances with Central Bank of Sri Lanka	868,669,741	-	868,669,741
Placements with financial institutions	1,426,456,171	-	1,426,456,171
Loans and advances to customers	18,399,121,819	12,536,582,044	5,862,539,775
Debt and other instruments	4,596,218,669	-	4,596,218,669
comprehensive income	297,729,997	-	297,729,997
	26,384,019,156	12,536,582,044	13,847,437,112

The bank considers any collateral as eligible for SLFRS 9 as per the policies set by the bank and as per the regulations issued by CBSL for the calculation of ECL.

In order to determine the fair value of collaterals for calculation of ECL, the bank conducts revaluations of mortgaged property, plant and machinery every 3 years through an external independent valuer as specified in CBSL direction No. Direction No. 03 of 2008 – Classification of loans and advances, income recognition and provisioning and in line with banks internal policies and procedures.

The Bank has not recognised a loss allowance for financial instruments which are fully secured against cash collaterals.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.5 Market risk

Introduction

Market Risk is the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in market interest, currency exchange rates, equity & commodity prices. The associated market risks and measurement techniques are given below.

The Bank is exposed to Market Risk because of positions held in its trading portfolio (Trading Book) as well as their non-trading business including the treasury operations (Banking Book). SBI SL's market risk arises mainly from non-trading portfolio (Banking Book) since trading book is negligible and consists only limited forex exposures. Exposure to market risk arises mainly from Interest Rate Risk and Forex risk as the Bank has negligible exposure to commodity related price risk and equity price risk.

Bank has a comprehensive market risk management policy and limit management framework. Bank monitors market risk against various limits, risk assessments and Management Action Triggers (MATs). Bank use Value at Risk, sensitivity analysis and stress testing on open positions, mark to market on daily basis to identify the exposure at risk.

Treasury plays an important role in managing both banking/ trading book and asset and liability position of the Bank and duties are segregated in line with the best practices in to front office, middle office and back office. Treasury Middle Office (TMO) ensures that the treasury front office deals within its limits set out as per Bank's risk appetite treasury back office reconciles and escalates key issues promptly.

The TMO of Risk Department independently measures, monitors and reports on market risk exposures using market risk dashboards and assists in review of the Bank's market risk related policies and exposure limits supporting ALCO for decision making. ALCO manages market risk exposures and profitability ensuring that risks taken are commensurate with the rewards and managed within the risk appetite of the Bank. The Risk Management Committee is responsible for setting up policies and other standards for managing market risk.

SBI SL has adopted the Standardized Measurement Method (SMM) for calculation of the Market Risk capital charge.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.5 Market risk (contd)

36.5.1 Interest Rate Risk

Interest Rate Risk (IRR) arises due to the difference in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL), which will have an impact on the future income and expenses and its economic value.

SBI SL manages the above risk using following tools / methodologies.

- Maturity Gap Analysis, where the interest sensitive assets (RSA) and liabilities (RSL) are categorized under different time buckets and the impact on Net Interest Income for a determined change in rate movement is assessed in the short term, i.e. up to one year.
- Bank has adopted the Modified Duration Gap approach for analyzing the changes in Economic Value of Equity, which requires the mapping of assets and liabilities into different time buckets based on their Maturity.

The Bank's tolerance limits, in respect of gaps for re-pricing maturity time buckets are not breached during the year under review. Also, SBI Sri Lanka's duration of assets is more than the duration of liabilities thereby implying that the assets are more sensitive to changing interest rates than liabilities. As per the modified duration calculations, drop in economic value of equity for a 200 basis point change in interest rate are within the prudential tolerance limits.

Periodical stress testing are performed to assess the impact on sudden rate movements on the portfolio.

ALCO has been delegated with powers to decide the interest rate on deposits and benchmark lending rate or base rate on advances. RCOM has also been delegated with powers to recommend various risk parameters to manage the interest rate risk like prudential limit for rate sensitive gaps, earnings at risk limits, and duration of investment portfolio etc.

Interest Rate sensitivity gap analysis as at 31 March 2021

	Total	Rs.	< 1 Month	1- 3 Months	3-6 Months	6 Months - 1 Year	1 Year - 2 Years	2 Years - 3 Years	3 Years - 5 Years	5 Years - 10 Years	Over 10 Years	Not exposed to interest rate risk
Financial assets	38,516,646,829		13,961,512,046	4,884,341,686	7,778,515,421	1,337,699,808	7,255,926,210	969,248,303	439,634,779	20,860,345	51,742,740	1,817,165,491
Cash and cash equivalents	2,520,729,336		1,504,792,429	-	-	-	-	-	-	-	-	1,015,936,907
Balances with Central Bank of Sri Lanka	4,832,310,146		4,820,595,879	-	-	-	-	-	-	-	-	11,714,267
Reverse repurchase agreements	-		-	-	-	-	-	-	-	-	-	-
Placements with financial institutions	3,215,083,234		3,215,083,234	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost	2,284,273,211		-	2,024,273,211	-	260,000,000	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	298,551,504		-	298,021,504	-	-	-	-	-	-	530,000	-
Gross loans and advances to customers	24,576,584,081		4,421,040,504	2,562,046,971	7,778,515,421	1,077,699,808	7,255,926,210	969,248,303	439,634,779	20,860,345	51,212,740	399,000
Deferred Tax asset	54,394,088		-	-	-	-	-	-	-	-	-	54,394,088
Other Assets	74,872,080		-	-	-	-	-	-	-	-	-	74,872,080
Property, Plant and Equipment	659,849,149		-	-	-	-	-	-	-	-	-	659,849,149
Financial liabilities	38,387,471,320		4,672,884,380	3,956,315,117	6,634,523,622	2,365,923,991	2,312,888,836	100,717,420	-	-	-	18,344,217,954
Due to banks	706,230,442		-	-	-	-	-	-	-	-	-	706,230,442
Due to customers	8,229,164,777		1,441,848,618	645,546,298	374,415,978	731,323,463	1,500,000	-	-	-	-	5,034,530,420
Other borrowings	16,848,619,009		3,231,035,762	3,310,768,818	6,260,107,644	1,634,600,528	2,311,388,836	100,717,420	-	-	-	-
Assigned Capital	2,442,827,454		-	-	-	-	-	-	-	-	-	2,442,827,454
Statutory Reserve Fund	402,040,194		-	-	-	-	-	-	-	-	-	402,040,194
Retained Earnings	7,301,068,033		-	-	-	-	-	-	-	-	-	7,301,068,033
Other Reserves	1,923,884,919		-	-	-	-	-	-	-	-	-	1,923,884,919
Provision for Retiring Gratuity	276,173,674		-	-	-	-	-	-	-	-	-	276,173,674
Other Liabilities	178,988,207		-	-	-	-	-	-	-	-	-	178,988,207
Current Tax Liabilities	78,474,611		-	-	-	-	-	-	-	-	-	78,474,611
Total Interest Rate sensitivity gap			9,288,627,667	928,026,570	1,143,991,799	(1,028,224,184)	4,943,037,373	868,530,883	439,634,779	20,860,345	51,742,740	(16,527,052,463)

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.5 Market risk (contd)

Increase/ (decrease) in Interest Rate	2021 Sensitivity to profit before tax Rs.
Rates moving up by 1%	65,521,546
Rates moving up by 2%	87,362,061
Rates moving up by 2.5%	109,202,576
Rates moving down by 1%	(65,521,546)
Rates moving down by 2%	(87,362,061)
Rates moving down by 2.5%	(109,202,576)

Interest Rate sensitivity gap analysis as at 31 March 2020

	Total	Rs.	< 1 Month	1- 3 Months	3-6 Months	6 Months - 1 Year	1 Year - 2	2 Years - 3 Years	3 Years - 5	5 Years - 10 Years	Over 10 Years	Not exposed to interest rate risk
Financial assets	27,227,571,501		5,572,123,459	1,906,880,354	637,331,928	4,506,840,695	3,783,163,169	7,597,086,469	1,355,553,455	155,362,464	24,615,130	1,688,614,379
Cash and Cash Equivalents	795,822,759		-	-	-	-	-	-	-	-	-	795,822,759
Balances with Central Bank	868,669,741		700,000,000	-	-	-	-	-	-	-	-	168,669,741
Placements with Banks	1,426,824,121		1,426,824,121	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost - Loans and Receivables to Customers	18,518,805,435		3,445,299,338	1,609,680,357	637,331,928	1,824,464,246	1,869,320,949	7,597,086,469	1,355,553,455	155,362,464	24,085,130	621,100
Financial assets at amortised cost - Debt Instruments and Other Instruments	4,596,218,669		-	-	-	2,682,376,449	1,913,842,220	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	297,729,997		-	297,199,997	-	-	-	-	-	-	530,000	-
Deferred Tax asset	53,013,728		-	-	-	-	-	-	-	-	-	53,013,728
Other Assets	31,391,310		-	-	-	-	-	-	-	-	-	31,391,310
Property, Plant and Equipment	639,095,741		-	-	-	-	-	-	-	-	-	639,095,741
Financial liabilities	27,107,519,935		1,288,803,607	175,467,549	408,280,571	3,540,476,419	6,076,771,077	942,115,245	95,923,210	-	-	14,579,682,258
Due to banks	697,610,077		-	-	-	-	-	-	-	-	-	697,610,077
Due to customers	4,807,324,455		1,288,803,607	175,467,549	408,280,571	308,111,885	159,561,775	159,561,775	-	-	-	2,307,537,294
Other borrowings	10,028,050,516		-	-	-	3,232,364,534	5,917,209,302	782,553,470	95,923,210	-	-	-
Assigned Capital	2,442,827,454		-	-	-	-	-	-	-	-	-	2,442,827,454
Statutory Reserve Fund	367,839,112		-	-	-	-	-	-	-	-	-	367,839,112
Retained Earnings	6,660,287,115		-	-	-	-	-	-	-	-	-	6,660,287,115
Other Reserves	1,626,097,749		-	-	-	-	-	-	-	-	-	1,626,097,749
Provision for Retiring Gratuity	232,475,517		-	-	-	-	-	-	-	-	-	232,475,517
Other Liabilities	115,063,028		-	-	-	-	-	-	-	-	-	115,063,028
Current Tax Liabilities	129,944,912		-	-	-	-	-	-	-	-	-	129,944,912
Total Interest Rate sensitivity gap			4,283,319,852	1,731,412,804	229,051,357	966,364,276	(2,293,607,907)	6,654,971,224	1,259,630,245	155,362,464	24,615,130	(12,891,067,878)

STATE BANK OF INDIA - SRI LANKA BRANCH**Notes to the financial statements (contd)****36 Risk management (contd)****36.5 Market risk (contd)**

The following table demonstrates the sensitivity of the Bank's income statement to a reasonably possible parallel shift in the interest rate yield curve, with all other variables held constant.

Increase/ (decrease) in interest rate	2020 Sensitivity to profit before tax Rs.
Rates moving up by 1%	44,068,795
Rates moving up by 2%	58,758,394
Rates moving up by 2.5%	73,447,992
Rates moving down by 1%	(44,068,795)
Rates moving down by 2%	(58,758,394)
Rates moving down by 2.5%	(73,447,992)

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.5 Market risk (contd)

36.5.1 Foreign exchange risk

The Risk that the Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in any foreign currency. Risk identification covers daylight, overnight, forward positions and also structural positions of the Bank. Overnight position is the position that the Bank maintains in a particular currency at the end of the day's operations. Daylight position is the position that the Bank maintains in any currency at any point of time, during the day. It is measured using Value at Risk, sensitivity analysis and stress testing on open positions against approved limits.

36.6 Liquidity risk

Introduction

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of the Bank. For liquidity management, the Bank currently follows a combination of the stock approach and the flow approach. Under the stock Approach, certain standard ratios are computed and prudential limits are set for standard ratios. In addition to the key ratios monitored under stock approach, bank monitors liquidity risk in bank's balance sheet via prudential liquidity ratios defined by the regulators, i.e. Statutory Liquid Asset Ratio (SLAR), Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) etc. Under the Flow approach, Bank conducts gap analysis in two methods viz. behavioral and actual. In the actual method, SBI SL considers contractual residual maturity of assets and liabilities. Under behavioral analysis, 'assets & liabilities are categorized according to the behavioral study'. The maturity gap limits are calculated and monitored against both negative and positive gap limits.

36.6.1 Analysis of financial assets and liabilities by remaining contractual maturities

As at 31 March 2021	On Demand (less than 15 Days)	15 Days to 3 Months	3 Months to 12 Months	Over 1 Year	Total 2021
	Rs.	Rs.	Rs.	Rs.	Rs.
Assets					
Cash and cash equivalents	2,520,729,336	-	-	-	2,520,729,336
Balances with Central Bank of Sri Lanka	4,832,310,146	-	-	-	4,832,310,146
Reverse repurchase agreements	-	-	-	-	-
Placements with financial institutions	-	3,215,027,769	-	-	3,215,027,769
Financial assets at amortised cost	-	2,024,273,211	259,999,559	-	2,284,272,770
Financial assets measured at fair value through other comprehensive income	-	298,021,504	-	530,000	298,551,504
Loans and advances to customers	2,006,003,439	4,918,871,791	8,820,860,067	8,701,729,181	24,447,464,478
Other financial assets	-	54,282,324	-	20,589,756	74,872,080
Total financial assets	9,359,042,921	10,510,476,599	9,080,859,626	8,722,848,937	37,673,228,083
Liabilities					
Due to banks	706,230,443	-	-	-	706,230,443
Due to customers	5,034,530,420	2,087,394,916	1,105,739,441	1,500,000	8,229,164,777
Other borrowings	2,729,406,243	3,812,398,338	7,894,708,172	2,412,106,256	16,848,619,009
Other liabilities	147,818,197	11,537,379	-	19,632,631	178,988,207
Total financial liabilities	8,617,985,303	5,911,330,633	9,000,447,613	2,433,238,887	25,963,002,436

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.6 Liquidity risk (contd)

36.6.1 Analysis of financial assets and liabilities by remaining contractual maturities (contd)

As at 31 March 2020	On Demand Days)	15 Days to 3 Months	3 Months to 12 Months	Over 1 Year	Total 2020
	Rs.	Rs.	Rs.	Rs.	Rs.
Assets					
Cash and cash equivalents	795,822,759	-	-	-	795,822,759
Balances with Central Bank of Sri Lanka	868,669,741	-	-	-	868,669,741
Reverse repurchase agreements	-	-	-	-	-
Placements with financial institutions	379,964,549	1,046,491,622	-	-	1,426,456,171
Financial Assets- Held to Maturity	-	-	-	-	-
Financial assets at amortised cost - Debt instruments and other instruments	-	-	2,682,376,449	1,913,842,220	4,596,218,669
Financial assets measured at fair value through other comprehensive income	-	297,199,997	-	530,000.00	297,729,997
Other financial assets	-	9,791,462	-	21,599,849	31,391,311
Loans and advances to customers	2,282,777,315	2,729,349,909	2,449,727,565	10,937,267,029	18,399,121,818
Total financial assets	4,327,234,364	4,082,832,990	5,132,104,014	12,873,239,098	26,415,410,466
Liabilities					
Due to banks	697,610,075	-	-	-	697,610,075
Due to customers	2,301,002,577	1,464,271,156	716,392,455	319,123,550	4,800,789,738
Other borrowings	-	-	3,232,364,534	6,795,685,984	10,028,050,518
Other liabilities	93,338,674	10,832,706	-	17,426,365	121,597,745
Total financial liabilities	3,091,951,326	1,475,103,862	3,948,756,989	7,132,235,899	15,648,048,076

36.7 Capital management

Qualitative disclosures

Capital adequacy ratio (CAR) is calculated based on the Central Bank of Sri Lanka (CBSL) directions stemming from Basel III accord. These guidelines require the Bank to maintain a CAR not less than 8.5% with minimum Tier 1 capital with buffers in relation to total risk weighted assets and a minimum total CAR with buffers of 12.5% in relation to total risk weighted assets.

Tier 1 Capital – Core Capital

This includes assigned capital, statutory reserve fund, published retained profits, accumulated other comprehensive income, general and other reserves. The assigned capital is the amount provided by SBI India to conduct its operation in Sri Lanka. In order to avoid stress on capital and in line with the guidance given by the Basel Committee on Banking Supervision, licensed banks can stagger audited additional credit loss provisions arising from SLFRS 9 when compared with credit loss provisions under LKAS 39 as at first day of adoption of SLFRS 9, net of any other adjustment on first day impact to retained earnings and net of tax effects, throughout a transitional period of four years for the purpose of calculating CAR under Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.7 Capital management

Tier 2 Capital – Supplementary capital

Revaluation gains and general provision are the only constituents of supplementary capital for the Branch. As per the CBSL regulations a prudential revaluation is done reflecting the full possibility of price fluctuations and forced sale, with prior approval from CBSL, which is then subject to a discount of 50%. According to explanatory note no. 03 of 2019 on interpretations of Banking Act Directions no.01 on capital requirements under Basel III for licensed commercial banks and licensed specialized banks; general provisions consist of impaired assets from stage 1 and 2 on the proportion of 100% and 50% respectively. This is subject to 1.25% of risk weighted assets on credit risk under the standardized approach shall be applicable for Tier 2 capital.

Quantative disclosures

Please refer to the other information for quantitative disclosures.

36.8 Reputation Risk

Reputation risk refers to the potential adverse effects which can arise from the Bank's reputation being tarnished due to factors such as unethical practices, regulatory actions, customer dissatisfaction, complaints, and adverse publicity, unable to meet obligations.

The Bank remains committed to continuously strive to maintain and improve its reputation in all the businesses it operates. Reputation Risk Management Framework has been developed for enhanced Reputation Risk Management in the Bank. Reputation Risk Events within the bank, there would be a two tier reporting structure for assessment and reporting of events. As part of this, Reputation Risk Working Group (RRWG) comprising senior officials, has been constituted for centralized and regular review of reputation risk related incidents in the Bank.

Compliance Risk

SBI SL has robust policy and processes for management of compliance risk and has a well-functioning compliance department to manage compliance aspects on a day to day basis. SBI SL is within the compliance risk appetite set i.e. "Amount of regulatory fines and penalties paid with respect to non-compliance with laws, standards, clauses, and statutes applicable to the functioning of the Bank". No incidences have been observed with regard to the regulatory fines and penalties paid with respect to non-compliance with laws, standards, clauses, statutes applicable to the functioning of the Bank for the year ended 31.03.2021.

37 Capital structure

SBI SL has not issued any capital instruments and capital is supported by Head office in the form of Assigned Capital.

38 Commitments and contingent liabilities

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

38.1 Legal claims

The Company receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is, the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

39 Impact of Covid 19

The COVID-19 pandemic has had a direct impact on economic activities both locally and globally, while pandemic-related uncertainties have affected the overall business landscape of the country. Sri Lanka's efforts to gradually revive its economic activities subsequent to the countrywide lockdown have been once again impeded by the emergence of the third wave of the pandemic; which has forced lockdowns in selected areas and provinces with mobility restrictions being imposed to control a possible community spread.

Subsequent to the COVID-19 outbreak in Sri Lanka, the Bank had strictly adhered to the guidelines and directions issued by the Government and the Central Bank of Sri Lanka (CBSL) when conducting its business operations. The Bank provided relief for affected businesses and individuals in-line with the directions Issued by CBSL. Such relief measures include, offering concessionary rates of interest to eligible loan products (debt moratorium), deferment of repayment terms of credit facilities, and waiving off selected fees and charges. Based on the Guidance Notes on Accounting Considerations of the COVID-19 Outbreak issued by the CA Sri Lanka, concessionary rates on the Equal Monthly Installment loans given under government debt moratorium relief packages have been considered under non-substantial modification methodology and the impact have been charged to profit or loss immediately in these Financial Statements.

The recognition and measurement of Expected Credit Losses (ECL) involves the use of significant judgement and estimation. The Branch form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate. Economic scenarios have been used to capture the exceptional nature of the current economic environment and to articulate management's view of the range of potential outcomes. The central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur. Economic forecasts are subject to a high degree of uncertainty in the current environment. Limitations of forecasts and economic models require a greater reliance on management judgement in addressing both the error inherent in economic forecasts and in assessing associated ECL outcomes. The Branch's central scenario features an improvement in economic growth in 2021 as activity and employment gradually return to the levels experienced prior to the outbreak of COVID19.

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates. The level of estimation uncertainty and judgement has increased during 2020 as a result of the economic effects of the COVID19 outbreak, including significant judgements relating to: the selection and weighting of economic scenarios, given rapidly changing economic conditions in an unprecedented manner, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a wider distribution of economic forecasts than before the pandemic. The key judgements are the length of time over which the economic effects of the pandemic will occur, the speed and shape of recovery. The main factors include the effectiveness of pandemic containment measures, the pace of rollout and effectiveness of vaccines, and the emergence of new variants of the virus, plus a range of geopolitical uncertainties, which together represent a very high degree of estimation uncertainty, particularly in assessing downside scenarios.

Impact on going concern

In determining the basis of preparing the financial statements for the year ended 31 March 2021, based on available information, the management has assessed the existing and anticipated effects of COVID-19 on the operations and the appropriateness of the use of the going concern basis. Further management considers the effect of COVID -19 is short to medium term and taken adequate measures to mitigate the possible effects.

STATE BANK OF INDIA - SRI LANKA BRANCH**Key Regulatory Ratios - Capital and Liquidity**

Item	31-Mar-21	31-Mar-20
Regulatory Capital (LKR '000)		
Common Equity Tier 1	12,040,263	11,059,633
Tier 1 Capital	12,040,263	11,059,633
Total Capital	12,161,526	11,198,593
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio	48.18%	50.35%
Tier 1 Capital Ratio	48.18%	50.35%
Total Capital Ratio	48.67%	50.99%
Leverage Ratio	26.91%	35.04%
Regulatory Liquidity		
Statutory Liquid Assets (LKR'000)	7,982,470	2,933,026
Statutory Liquid Assets (USD'000)	58,787	30,185
Statutory Liquid Assets Ratio (<i>Minimum Requirement -20%</i>)		
Domestic Banking Unit (%)	117.87%	58.71%
Off-Shore Banking Unit (%)	78.04%	52.14%
Liquidity Coverage Ratio (%) – Rupee (<i>Minimum Requirement -90%</i>)	5099.75%	1235.89%
Liquidity Coverage Ratio (%) – All Currency (<i>Minimum Requirement - 90%</i>)	410.69%	405.48%

STATE BANK OF INDIA - SRI LANKA BRANCH**Basel III Computation of Capital Ratios**

Item	Period 31.03.2021	Period 31.03.2020
Common Equity Tier 1 (CET1) Capital after Adjustments	12,040,263	11,059,633
Common Equity Tier 1 (CET1) Capital	12,069,821	11,097,051
Equity Capital (Stated Capital)/Assigned Capital	2,442,827	2,442,827
Reserve Fund	402,040	367,839
Published Retained Earnings/(Accumulated Retained Losses)	7,301,068	6,660,287
Published Accumulated Other Comprehensive Income (OCI)	-	-
General and other Disclosed Reserves	1,923,885	1,626,098
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	29,557	37,418
Goodwill (net)	-	-
Intangible Assets (net)	-	-
Deferred tax assets (net)	54,394	53,014
Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees	(24,837)	(15,596)
Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	-	-
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	121,263	138,960
Tier 2 Capital	121,263	138,960
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	121,263	138,960
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by third parties	-	-
Total Adjustments to Tier 2	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
CET1 Capital	-	-
Total Tier 1 Capital	12,040,263	11,059,633
Total Capital	12,161,526	11,198,593