STATE BANK OF INDIA
SRI LANKA BRANCH

Financial statements for the year ended
31 March 2020

bakertilly

bakertilly

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INDEPENDENT AUDITOR'S REPORT ON STATE BANK OF INDIA – SRI LANKA BRANCH

TO THE CENTRAL OFFICE OF STATE BANK OF INDIA

Opinion

We have audited the financial statements of State Bank of India – Sri Lanka Branch ("the Bank"), which comprise the Statement of financial position as at March 31, 2020, and the Statement of profit or loss, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and notes to the financial statements, including a Summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at March 31, 2020, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. The key audit matter below was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. We have provided below a description of how our audit procedures addressed the matter in that context.

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

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit procedures addressed the key audit matter
Impairment allowances of loans and advances The accounting policy relating to provisioning of impairment for loans and advances is described in note 3.3.2, the detail relating to impairment charges for the year ended 31 March 2020 is included in note 09 and details of provisions carried at 31 March 2020 are included in note 17, 18, 19 and 32. The assessment of impairment of loans requires significant judgment by the Bank may have a significant impact on the financial statements. Given the subjectivity and reliance on estimates and judgements inherent in the determination of the provision for impairment and historical issues in relation to classifying of loans as non-performing advances (NPAs) and insufficient provisioning, we determined this to be a matter of most significance to our audit. Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. They are calculated on a collective basis for portfolios of loans of a similar nature (the collective impairment model) and on an individual basis for significant loans (individual impairment model). Both models used by the Bank utilize arrears as the primary impairment trigger; however, there is a risk that other impairment triggers are not identified on a timely basis. For the collective impairment model, impairment is calculated on a modeled basis for portfolios of loans and advances. This is because loans and advances considered under this model comprise of large numbers of accounts with relatively small individual balances. The key assumptions and judgments made by the Bank underlie the calculation of impairment. Key assumptions and judgments include the calculation of the average loss percentage once a loan is identified as default.	**Our procedures included the following:** **Impairment of loans and advances** • We obtained an understanding of management's process and tested controls over credit origination, credit monitoring and credit remediation. • We assessed the appropriateness of the accounting policies and loan impairment methodologies applied by comparing these to the requirements of SLFRS 9: Financial Instruments. • We evaluated the adequacy of the financial statement disclosures, including disclosures of - key assumptions, judgments and sensitivities. Where credit losses were calculated on a modelled basis we performed the following audit procedures: • We compared and confirmed the consistency of the model used by the management for the purpose of determining the impairment provision as at 31 March 2020. This included testing the consistency of key judgements and assumptions applied in the calculation of individual and portfolio provisions. We tested input data and re-performed model calculations to ascertain the accuracy of calculations performed by management. • Assessed the consistency and reasonableness of forward-looking information incorporated into the credit loss calculations considering multiple economic scenarios selected and the weighting applied to each scenario. • We assessed the impact arising from the relief measures introduced by Government of Sri Lanka to the expected cash flows factored in to the calculation of LGDs. • Further, we assessed the appropriateness of management application of temporary practical expedients introduced by CA Sri Lanka in relation to determination of ECL.

EDIRISINGHE & CO. Chartered Accountants ★ BAKER TILLY ★

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

Management is responsible for the other information. The other information comprises the supplementary information included, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Management and those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility 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 SLAuS 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.

EDIRISINGHE & CO. Chartered Accountants * BAKER TILLY *

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibility for the Audit of the Financial Statements (continued)

- 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' 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3337.

Edirisinghe & Co.,
Chartered Accountants
Colombo
17 July 20

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

STATE BANK OF INDIA - SRI LANKA OPERATIONS
STATEMENT OF PROFIT OR LOSS

For the year ended 31st March 2020	Note	2020 LKR	2019 LKR
Interest income		1,629,396,316	1,646,239,261
Less: Interest expense		(426,618,905)	(476,710,320)
Net interest income from continued operations	05	1,202,777,411	1,169,528,941
Fee and commission income		137,760,187	140,869,584
Less: Fee and commission expenses		-	-
Net fee and commission income from continued operations	06	137,760,187	140,869,584
Net gain/(Loss) from trading		-	-
Net fair value gain/(loss) from financial instrument designated at fair value through profit or loss		-	-
Net gain/(loss) from derecognition of financial assets	07	-	769,700
Net other operating income	08	132,662,563	134,956,796
Net other income		-	-
Total operating income from continued operations		1,473,200,161	1,446,125,021
Impairment charges	09	9,199,640	23,934,132
Net operating income from continued operations		1,482,399,801	1,470,059,154
Personnel expenses	10	(129,889,654)	(136,698,141)
Other operating expenses	11	(266,027,802)	(209,876,303)
Operating profit before VAT & NBT from continued operations		**1,086,482,345**	**1,123,484,710**
Less : Value Added Tax & National Building Tax on financial services	12	(172,280,185)	(181,130,091)
Operating profit after VAT & NBT from continued operations		914,202,160	942,354,619
Operating loss from discontinued operations		-	(4,937,123)
Profit before income tax		914,202,160	937,417,496
Less: Income tax expense	13	(375,145,529)	(363,486,337)
Profit for the year		**539,056,630**	**573,931,159**

All values are in Sri Lankan Rupees (LKR) otherwise stated. Figures in brackets indicate deduction.

The Notes to the Financial Statements from Page 6 to 49 form an integral part of these Financial Statements.

17-Jul-20

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

STATE BANK OF INDIA - SRI LANKA OPERATIONS
STATEMENT OF COMPRHENSIVE INCOME

For the year ended 31st March 2020	2020 LKR	2019 LKR
Profit for the year	539,056,630	573,931,159
Items that will be reclassified to profit or loss		
Exchange differences on translation of foreign operations	364,804,108	515,441,475
Net gains/(losses) on cash flow hedges	-	-
Net gains/(Losses) on investments in debts Intruments measured at fair value through other comprehensive income	1,281,001	(780,721)
Deferred tax attributable to current year	-	-
Share of profits of associates and joint ventures	-	-
Debt instruments at fair value through other comprehensive income	-	-
Others	-	-
Less: Tax expense relating to items that will be reclassified to profit or loss.	-	-
Sub Total	366,085,109	514,660,754
Items that will not be reclassified to profit or loss		
Change in fair value on investyment in equity Instruments designated at fair value through other comprehensive income	-	-
Change in fair value attributable to change I the bank's own credit risk on financial liabilities desgnated at fair value though profit or loss	-	-
Re-measurement of post employment benefit obligation	(24,251,306)	(2,326,147)
Changes in revaluation surplus	-	-
Share of profit of associates and joint ventures	-	-
Others (specify)	-	-
Less: Tax expenses relating to items that will not be reclassified to profit or loss.	(389)	(604)
Sub Total	(24,251,695)	(2,326,751)
Other comprehensive income for the year, net of taxes	**341,833,414**	**512,334,003**
Total comprehensive income for the year	**880,890,045**	**1,086,265,162**

All values are in Sri Lankan Rupees (LKR) otherwise stated. Figures in brackets indicate deduction.

The Notes to the Financial Statements from Page 6 to 49 form an integral part of these Financial Statements.

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

STATE BANK OF INDIA - SRI LANKA OPERATIONS
STATEMENT OF FINANCIAL POSITION
As at 31st March 2020

	Note	2020 LKR	2019 LKR
ASSETS			
Cash and cash equivalents	15	795,822,759	447,133,794
Balances with Central Bank of Sri Lanka	16	868,669,741	972,979,356
Placements with banks	17	1,426,456,171	4,965,354,613
Derivative financial instruments		-	-
Financial assets measured at fair value through profit or loss		-	-
Financial assets at amortised cost			
Loans and advances	18	18,399,121,819	14,032,075,768
Debt and other instruments	19	4,596,218,669	4,301,652,146
Financial assets measured at fair value through other comprehensive income	20	297,729,997	1,388,104,320
Property, plant and equipment	21	639,095,741	189,427,060
Right of use		21,599,848	-
Deferred tax assets	22	53,013,728	56,603,156
Other assets	23	9,791,462	93,855,869
Total assets		**27,107,519,935**	**26,447,186,082**
LIABILITIES			
Due to banks	24	10,725,660,593	9,150,098,110
Derivative financial instruments		-	-
Financial liabilities recognized through profit or loss			
-measured at fair value		-	-
-designated at fair value		-	-
Financial liabilities at amortised cost			
-due to depositors	25	4,807,324,455	6,633,936,603
-due to debt securities holders		-	-
-due to other borrowers		-	-
Retirement benefit obligation	26	232,475,517	204,092,200
Current tax liabilities		129,944,912	124,752,933
Lease liability		17,426,364	-
Other liabilities	27	97,636,664	118,144,851
Total liabilities		**16,010,468,505**	**16,231,024,697**
EQUITY			
Assigned capital	28	2,442,827,454	2,442,827,454
Statutory reserve fund	29	367,839,112	340,923,557
Retained earnings	30	6,660,287,115	6,172,397,734
Other reserves	31	1,626,097,749	1,260,012,640
Total equity		**11,097,051,430**	**10,216,161,385**
Total liabilities and equity		**27,107,519,935**	**26,447,186,082**
Contingent liabilities	32	**18,751,955,426**	**22,563,370,016**

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

....
Head - Finance

The Management of the Bank is responsible for the preparation and fair presentation of these Financial Statements.

....
Head - Operations

....
Country Head

All values are in Sri Lankan Rupees (LKR) otherwise stated. Figures in brackets indicate deduction.
The Notes to the Financial Statements from Page 6 to 49 form an integral part of these Financial Statements.
17-Jul-20

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

STATE BANK OF INDIA - SRI LANKA OPERATIONS
STATEMEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2020

	Assigned capital (Rs.)	Support fund (Rs.)	Funds from central office (Rs.)	Statutory Reserve fund (Rs.)	Retained Earnings (Rs.)	Foreign Currency translation reserve (Rs.)	Fair value through other comprehensive income reserve (Rs.)	Total (Rs.)
Balance as at 01.04.2018	1,566,460,000	44,416,145	831,951,309	307,144,649	5,649,067,100	745,351,886		9,144,391,089
Day 1 impact from IFRS 09 application	-	-	-	-	(14,494,866)			(14,494,866)
Comprehensive income for the year:								
Profit for the year	-	-	-	-	573,931,159			573,931,159
Other comprehensive income	-	-	-	-	(2,326,751)	515,441,475	(780,721)	512,334,003
Total Comprehensive Income	-	-	-	-	571,604,408	515,441,475	(780,721)	1,086,265,162
Transfer to Statutary Reserve Fund	-	-	-	33,778,908	(33,778,908)			-
Balance as at 31.03.2019	**1,566,460,000**	**44,416,145**	**831,951,309**	**340,923,557**	**6,172,397,734**	**1,260,793,361**	**(780,721)**	**10,216,161,385**
Balance as at 01.04.2019	1,566,460,000	44,416,145	831,951,309	340,923,557	6,172,397,734	1,260,793,361	(780,721)	10,216,161,385
Comprehensive income for the year:								
Profit for the year	-	-	-	-	539,056,630		-	539,056,630
Other comprehensive income	-	-	-	-	(24,251,695)	364,804,108	1,281,001	341,833,414
Total Comprehensive Income	-	-	-	-	514,804,936	364,804,108	1,281,001	880,890,045
Transfers to reserves during the year	-	-	-	26,915,555	(26,915,555)		-	-
Balance as at 31.03.2020	1,566,460,000	44,416,145	831,951,309	367,839,112	6,660,287,115	1,625,597,469	500,280	11,097,051,430

All values are in Sri Lankan Rupees (LKR) otherwise stated. Figures in brackets indicate deduction.

The Notes to the Financial Statements from Page 6 to 49 form an integral part of these Financial Statements.

17-Jul-20

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

STATE BANK OF INDIA - SRI LANKA OPERATIONS
STATEMENT OF CASH FLOWS

For the year ended 31st March 2020	Note	2020 LKR	2019 LKR
Cash flows from operating activities			
Profit before tax		914,202,160	937,417,496
Adjustments for:			
Non-cash items included in the profit before tax	34.1	43,056,562	(9,647,104)
Changes in operating assets	34.2	(634,442,491)	(2,314,950,869)
Changes in operating liabilities	34.3	(271,557,852)	623,682,073
Dividend income		-	-
Tax paid		(165,791,747)	(315,757,328)
Gratuity paid		(22,809,951)	(23,913,470)
Net cash used in operating activities		(137,343,319)	(1,103,169,202)
Cash flows from investing activities			
Purchase of property, plant and equipment		(476,253,262)	(185,959,379)
Sales of property, plant and equipment		-	40,000
Changes in financial investments - Net		795,807,800	(458,657,650)
Dividends received		-	-
Net cash generated from/ (used in) investing activities		319,554,538	(644,577,029)
Cash flows from financing activities			
Assigned capital received from head office		-	-
Net cash from financing activities		-	-
Net increase/ (decrease) in cash & cash equivalents		182,211,219	(1,747,746,231)
Cash and cash equivalents at the beginning of the year		447,133,794	1,725,814,395
Exchange difference on transaction of foreign operation		166,477,746	469,065,629
Cash and cash equivalents at the end of the year		795,822,759	447,133,794
Cash and cash equivalents at the end of the year			
Cash and cash Equivalents	15	795,822,759	447,133,794
		795,822,759	447,133,794

All values are in Sri Lankan Rupees (LKR) otherwise stated. Figures in brackets indicate deduction.

The Notes to the Financial Statements from Page 6 to 49 form an integral part of these Financial Statements.

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

STATE BANK OF INDIA - SRI LANKA OPERATIONS
ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2020

1 - CORPORATE INFORMATION

1.1 - General

State Bank of India - Sri Lanka Operations ("the Bank") include: Colombo Branch - DBU, Colombo Branch - FCBU and Kandy Branch - DBU. It also includes the results of operations of Jaffna Branch - DBU up to 30 September 2018 , the date its operations were discontinued. The Bank is a licensed commercial bank governed by Central Bank of Sri Lanka. The office of the Bank is situated at No.16, Sir Baron Jayathilake Mawatha, Colombo 01. The head office of the Bank is State Bank of India, which is incorporated in India

1.2 - Principal activities and nature of operations

During the year ,the principal activities of the bank are banking and related activities such as accepting deposits, personal banking, trade financing, off shore banking, resident and non resident foreign currency operations, money remittance facilities, dealing in government securities etc.

The Bank provides a comprehensive range of financial services encompassing personal, investment and private banking trade service.

2 - BASIS OF PREPARATION

2.1 - Statement of compliance

The financial statements of the Bank are combined results of operations of all Domestic Bank Units (DBUs) and the Foreign Currency Banking Unit (the FCBU) whose books are maintained separately. For the purpose of these financial statements, the FCBU is considered a foreign operations and the results and the financial position of the FCBU Colombo Branch are translated into Sri Lankan Rupee (LKR), the presentation currency, based on the translation method explained in Note 3.1.4.2.

The Financial Statements of the Bank have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS and LKASs) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The preparation and presentation of Financial Statements are also in compliance with the requirements of the Companies Act No. 07 of 2007 and requirements of Banking Act No.30 of 1988 and amendments thereto.

Authorisation of financial statements

The financial statement for the year ended 31st March 2020 were approved and authorized for issue by the Management on 17th July 2020.

2.2 - Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position.

i. The liability for defined benefit is recognized as the present value of the defined benefit gratuity obligation.

ii. Financial assets available for sale are measured at fair value.

2.3 - Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees, which is the bank's functional currency and has been rounded to the nearest Sri Lankan Rupee.

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

2.4 - Presentation of Financial Statements

The assets and liabilities of the bank presented in its Statement of Financial Position are grouped by nature and listed in order that reflects their relative liquidity and maturity pattern.

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 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 recognized 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.

2.5 - Use of estimates and judgments

2.5.1- General

The preparation of the financial statements in conformity with Sri Lanka Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The use of available information and application of judgments are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates in subsequent financial year, if any; are recognised prospectively.

Management believes that bank's critical accounting policies where judgment is necessarily applied are those which relate to the impairment of loans and advances, valuation of financial instruments, deferred tax assets and provisions for liabilities.

Further information about key assumption concerning the future and other key sources of estimated uncertainty are set out in the notes to the financial statements.

2.5.2 - Significant Accounting estimates and assumptions

2.5.2.1 - Taxation

The Bank is subject to income tax and other taxes including VAT and NBT on financial services. Significant judgment was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the Financial Statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements. The Bank recognized assets and liabilities for current, deferred and other taxes 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 income and deferred tax amounts in the period in which the determination is made.

2.5.2.2 - Going concern

In determining the basis of preparing the financial statements for the year ended 31 March 2020, based on available information, the management has assessed the existing and anticipated effects of COVID-19 on the Bank and appropriatness of the use of going concern basis. Further management considers effects of COVID -19 is short to medium and has taken adequate measures to mitigate the possible effects. Detailed discussion is given in note 40.

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

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

2.5.2.3 Fair value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

The Bank regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Bank assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Bank uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2**: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:
Note 37 – Fair value of financial instruments

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

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

2.5.2.5- Estimating the incremental borrowing rate

As the Bank cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure the lease liabilities. IBR is rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

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2.5.2.6 Impairment losses on loans and advances

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

As per SLFRS 9, the Bank's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgments and estimates include:

• The Bank'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);

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

2.5.2.7 Impairment losses on other financial assets

The Bank reviews its debt securities classified as Fair Value through Other Comprehensive Income (FVOCI) / Amortized Cost at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. From 1st April 2018, with the adoption of SLFRS 9 equity instruments are not subjective for impairment assessment.

2.5.2.8 - Retirement benefit obligation

The cost of the defined benefit gratuity plan is determined using projected unit credit method. The projected unit credit method involves making assumptions about discount rates, future salary increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty see Note 26 for the assumptions used.

2.5.2.9 - Commitment and contingencies

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in Statement of Financial Position but are disclosed unless they are remain.

2.5.3 - Comparartive information

The accounting policies have been consistently applied by the bank with those of the previous years. The comparative information is re-classified wherever necessary to conform to the current year's presentation. However, the Bank has not restated comparative information for contracts within the scope of Sri Lanka Accounting Standard – SLFRS 16 on "Leases".

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3 - SIGNIFICANT ACCOUNTING POLICIES

3.1 - Revenue and expense recognition

Revenue is recognized 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 recognized.

3.1.1 - Interest income and expense

Interest income and expense for all interest - bearing financial instruments are recognized in 'Interest income' and 'interest expense' in the income statement using the effective interest rate of the financial asset or financial liabilities to which they relate.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest includes all transaction cost, premiums or discounts and fees paid by the bank that are an integral part of the effective interest rate. Transaction cost include incremental cost that are directly attributable to the acquisition or issue of financial assets or liability.

Interest income on individually significant impaired financial assets (loans and advances, and held to maturity debt instruments listed in the CSE) whose impairment is assessed individually, is calculated by applying the original effective interest rate of the financial assets to the carrying amount as reduced by any allowance for impairment. Thus changes in impairment allowances assessed individually and attributable to time value are reflected as a component of interest income.

Interest income includes notional tax credit on interest income from treasury bills and bonds.

3.1.2 - Fee and commission

Fee and commission income and expense that are an integral part of the effective interest rate of a financial instrument are included in the measurement of the effective interest rate.

Other fees and commission income are recognized as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the service are received.

3.1.3 - Other income

(a) - Dividend income

Dividend income from shares is recognized when the Bank's right to receive the payment is established.

(b)Other income

Other income are recognized on accrual basis.

3.1.4- Foreign currency translation

The Financial Statements are presented in Sri Lankan Rupees (LKR.) which is the Bank's functional and presentation currency.

3.1.4.1 - Foreign currency transactions and balances

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

Assets and liabilities dominated in foreign currencies are re translated at the closing rate at the reporting date. All difference are taken in the Statement of comprehensive income

3.1.4.2 - Transactions of foreign currency banking unit

Assets and liabilities are translated at the rates if exchange ruling at the reporting date.

Income and expenses are translated at the average rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rates ruling at the transaction date.

All resulting exchange differences are recognized in the Statement of comprehensive income and accumulated in the Foreign currency translation reserve, which is a separate component of Equity.

3.1.5 - Expenditure recognition

Operating expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earnings of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to income in arriving the profit for the year.

3.2 - Assets and bases of their valuation

3.2.1 - Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investment that are readily convertible to known amounts of cash and which are subject to and insignificant risk of change in value. Such investments are normally those with three months or less than three months maturity from the date of acquisition.

Cash and cash equivalents include cash balances, short-term funds and and money at call and short notice.

3.2.2 - Balances with Central Bank

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investment that are readily convertible to known amounts of cash and which are subject to and insignificant risk of change in value. Such investments are normally those with three months or less than three months maturity from the date of acquisition.

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3.3 - Financial assets

3.3.1 - Initial recognition, classification and subsequent measurement

3.3.1.1 - Date of recognition

All financial assets and liabilities, with the exception of loans and advances to customers and balances due to depositors are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

3.3.1.2 - Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt through the Statement of profit or loss.

3.3.1.3 - 'Day 1' profit or loss

When the transaction price of the instrument differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a 'Day 1' Profit or Loss) in 'Net trading income'

3.3.1.4 Classification and subsequent measurement of financial assets

As per SLFRS 09, the Bank classify all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either; the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

- Amortised cost
- Fair value through Other Comprehensive Income (FVOCI)
- Fair value through Profit or Loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

3.3.1.5 (a)Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

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3.3.1.5 (a) Business model assessment (Continued....)

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

3.3.1.5(b) The SPPI Test

As a second step of its classification process the Bank assesses the contractual terms of the financial assets to identify whether they meet the "Solely the Payment of Principle and Interest" (SPPI) criteria.

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

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

3.3.1.6 Classification and subsequent measurement of financial liabilities

As per SLFRS 09, Bank classifies financial liabilities as "Financial liabilities measured at amortized cost".
The subsequent measurement of financial liabilities depends on their classification.

3.3.1.7 Reclassification of Financial Assets and Financial Liabilities

As per SLFRS 09, the Bank reclassifies its financial assets subsequent to the initial recognition when an only when the business model for managing such financial assets is changed. Such reclassification is applied prospectively from the reclassification date.

Financial liabilities are not reclassified.

3.3.1.8 De-recognition of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
- The Bank has transferred substantially all the risks and rewards of the asset or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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3.3.2 - Impairment of financial assets

SLFRS 9 – Financial Instruments replaces the 'Incurred Loss' model in LKAS 39- Financial Instruments: Recognition and Measurement with a forward-looking 'Expected Credit Loss' (ECL) model. This requires considerable judgment about how changes in economic factors affect ECLs, which determined on a probability-weighted basis. The new model applies to financial assets that are not measured at FVPL, including loans and receivables, and all other debt securities. ECL does not apply to equity investments

Under ECL Model, Bank's loss allowance is measured as either of the following basis;

- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition. Twelve months ECL measurement applies if it has not increased an entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

Some of the key concepts in SLFRS 09 that have the most significant impact and require a high level of judgment are;

- Assessment of significant increase in credit risk
- Macro economic factors, forward looking information and multiple scenarios.

Based on the computations:
Exposures within each group were segmented based on common credit risk characteristics such as product type, delinquency status, age of relationship and type of product purchased.
The Bank to be performed an assessment, at the end of each reporting period to identify whether a financial instrument's credit risk has increased significantly since initial recognition.
The key judgments and assumptions adopted by the Bank in addressing the requirements of SLFRS 09 are discussed below;

3.3.2.1 Definition of default and cure

A default shall be considered to have occurred in regard to a particular obligor when either or both of the following
(a) it is considered that the obligor is unlikely to pay its credit obligations to the bank, without recourse by the institution to actions such as realizing security.

(b) The obligor is past due more than 90 days on any material credit obligation to the bank,
The Bank considers a financial instrument as defaulted and therefore Stage 3 (credit-impaired)for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

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

It is the Bank's policy to consider a financial instrument as "cured "and therefore reclassified out of Stage 3 when none of the default criteria have been present and the borrower is no longer considered as non performing in accordance with the Directives of the Central Bank.

Once cured, the decision whether to classify an asset as Stage 2 or Stage 1 largely depends on the days past due, at the time of the cure.

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3.3.2.1 Definition of default and cure (Continued....)

However there are two exceptions to the general ECL approach above:

· For purchased or originated credit-impaired financial assets (POCI), the carrying amount must always reflect the lifetime expected credit losses; and

· For trade receivables, SLFRS 09 provides an option to apply a simplified approach that reflects a lifetime ECL.

The bank's mainly general expected credit loss approach is applicable since simplified and lifetime ECL for purchased or originated credit impaired financial assets (POCI) are not applicable.

3.3.2.2 Significant increase in credit risk

The Bank considers that a significant increase in credit risk occurs no later than when contractual payments are equal to or more than 30 days past due. Where there is a significant increase in credit risk the group uses lifetime ECL model to assess loss allowances instead of 12–month ECL model.

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12month ECL or LTECL, the Bank assesses whether there has been a significant increase in the credit risk since initial recognition.

SLFRS 9 impairment model uses a "three-stage" approach for estimating expected losses on the basis of changes in credit quality since initial recognition.

Stage 1 - When loans are originated or purchased, the Bank recognises an allowance based on 12 months ECLs are recognized in profit or loss and a loss allowance is established collectively. Stage 1 loans also contain the facilities which are reclassified from Stage 2 since the credit risk has improved.

Stage 2 - When a loan credit risk increases significantly, the Bank records an allowance for the Life Time Expected Credit Loss (LTECL), which performed collective basis. The Bank apply the internal ratings for the corporate portfolio and Days past Dues (DPD) data for retail portfolio in the stage evaluations. Further, in the absence of any other leading indicators, 30 days past due presumption as significant increase in credit risk is taken. Stage 2 loans also include facilities, which are reclassified from stage 3 since the credit risk has improved.

Stage 3 - When a loan is considered to be credit impaired, contain objective evidences of incurred loss, the Stage 3 assessment performed either individually or collectively. The Bank considers all Stage 3 loans of retail segment, as non perfoming and individually assessessed. Bank considers Internal Rating of "SB 16" are as stage 03 loans for the corporate loans which are collectivelly assessed and allowance for the LTECL with probability of default at 100% is recorded .

Investment - financial instrument with an external rating grade of "investment grade" is an example of an instrument that may be considered to have low credit risk." Therefore facilities with BBB or higher grades considered as low credit risk. In the case of sovereign bonds issued by the Government, denominated in USD, bonds with a rating of uptil B+, have been classified under Stage1 being sovereign bonds issued by the Sri Lankan Government.

3.3.2.3 Movement between the stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above.

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3.3.2.4 Probability of default (PD) Estimation

Probability of default is computed using transition matrix and SLFRS 9 require point-in-time (PIT) PDs. Therefore, TTC PDs would need to be converted to PIT PDs.

PDs for Retail segment are computed using a transition matrix based on days past due information for past years and established through-the-cycle PD (TTC PD) and establish credit index based on the historical information. Then the credit index is regressed with macro-economic variable GDP and developed a model to predict the credit index for future periods. In order to get the forward looking PD, TTC PD is adjusted by the Vasicek approach.

3.3.2.5 Exposure at Default computation (EAD)

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

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

3.3.2.6 Loss Given Default (LGD)

The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral.

These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held. Historically collected loss data is used for LGD calculation and involves a wider set of transaction characteristics. It is usually expressed as a percentage of the EAD.

3.3.2.7 Forward looking information

In its ECL models, the Bank relies macro economic variable GDP as the economic inputs.

<u>Vasicek Approach</u>

As the default data set is low or near zero for the investment portfolio, external ratings shall be used for assessment of forward looking PD's to estimate ECL:

Further, for corporate loan portfolio, where historical migration from ratings to default categories are not observed, internal rating data is used based on the mapping to external ratings.

The 12 month PD (TTC) estimates will be obtained from external ratings (e.g. S&P's ratings) corresponding to the external ratings of the instrument. The recent TTC PD shall have to be extracted each year against each external rating grade.

The forecasted PIT PDs will be estimated based upon the Vasicek single factor model by establishing a link between TTC PDs and various macroeconomic factors of all the countries in which the Bank has exposure under it's investment portfolio.

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. To ensure completeness and accuracy, the Bank obtains the above data from third party sources (e.g.International Monitory Fund).

3.3.2.8 Calculation of ECLs for Individually significant loans

Threshold for individual assessment - Except for Personal loans which are not significant, the Bank Individually review all the loans above $ 500,000 (or its equivalent in LKR) and past due more than 90 days (NPL) excluding cash back loans and exposures with or guaranteed by Banks.

However, if the Bank identifies facilities for which objective evidence of impairment is found as a result of credit review activities, such facilities are also assessed for individual impairment irrespective of the threshold.

The impairment loss on a financial asset measured at amortized cost is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. Estimated future cash flows only take into account credit losses already occurred at the date the impairment loss is calculated.

3.3.2.9 Grouping financial assets measured on collective basis

The Bank calculates ECLs either on a collective or an individual basis. The Bank catergorise the collective impairment exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

Corporate
Retail
Sovereign
Investments in debt securities

3.3.3- Repurchase and reverse repurchase agreements

3.3.3.1 - Repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership.

The corresponding cash received is recognized in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Cash collateral on securities lent and repurchase agreements", reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to 'Financial assets held for trading pledged as collateral' or to 'Financial investments available for sale pledged as collateral', as appropriate.

3.3.3.2 - Reverse repurchase agreements

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the statement of financial position. The consideration paid ,including accrued interest, is recorded in the statement of financial position ,within 'Cash collateral on securities borrowed and 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 'Net interest income ' and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to other parties, the obligation to return the securities is recorded as a short sale within 'Financial Liabilities Held for Trading 'and measured at fair value with any gains or losses included in 'Net trading Income'.

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3.3.4 - Property, plant and equipment

(a) Recognition

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the bank and the cost of the asset can be reliably measured.

(b) Measurement

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.

(c) Subsequent cost

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate only when it is probable that future economic benefit associated with the item will flow to the bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All repairs and maintenance costs are charged to statement of comprehensive income during the financial period in which they are incurred.

(d) Depreciation

Depreciation is calculated on a reducing balance method other than computer equipments over the use full life of the asset commencing from when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.The rate of depreciation are as follows.

Premises	5%
Office equipment	20%
Furniture and fittings	20%
Computer hardware	33%
Computer software	100%
Motorvehicles and elevators	20%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

(e) Derecognition

An item of property, plant & equipment is derecognized upon disposal or when no economic benefits are expected.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining other operating profit.

3.3.5 - Inventories

Inventories such as stationary stocks are valued at lower of the cost and net realizable value ,after making due allowances for obsolete and slow moving items.

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3.3.6 - Other assets

Other current assets include advances, deposits and prepayments. Advances and Deposits are carried at historical value less impairment and amortized over the period during which it is utilized.

3.4 - Liabilities and Provision

3.4.1 - Liabilities

Liabilities stated under current liabilities in the balance sheet are those expected to fall due within one year from the balance sheet date. Item stated as long term liabilities are those expected to fall due at any point of time after one year from the reporting date.

3.4.1.1 Other financial liabilities

Other financial liabilities include the following items:

3.4.1.1.1 Bank borrowings are initially recognized at fair value net of any transaction costs directly measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

3.4.1.1.2 Other payables and other short-term monetary liabilities, which are initially recognized are at fair value and subsequently carried at amortized cost using the effective interest method.

3.4.1.2 - Other Payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other payables are measured at cost.

3.4.2 - Provisions

Provisions are recognized when the bank has a present obligation (legal and constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount can be estimated reliably. The expenses relating to any provision is presented in profit or loss. Provisions are not recognized for future operating losses. If the effect of the time value of money is material, provision are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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3.4.3 Taxation

a) Current taxes

The provision for income tax is based on the element of income and expenditure as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act No.24 of 2017.
Current income tax assets and liabilities for the current and prior years are measured at the amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue.

b) Deferred taxation

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted on the reporting date.
Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.
A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(c) - Value added tax on financial services

VAT on financial services is calculated at the **rate of 15%** in accordance with the provisions of the value added tax Act no.14 of 2002 and amendments thereto.
The value base for the value added tax for the bank is the adjusted accounting profit before tax and emoluments of employees. The adjustment to the accounting profit before tax is for economic depreciation computed on prescribed rates instead of the rates adopted in the financial statements.

(d) National building tax on financial services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services are explained in Note 3.4.3 (c) above . However NBT on Financial Services has been abolished w.e.f 01.01.2020 .

(e) Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

(f) Debt Repayment Levy (DRL)

As per the Finance Act No. 35 of 2018, with effect from October 1, 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on financial services.
However , financial institutions are not subject to DRL with effect from 01.01.2020.

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3.4.4 - Employee benefits

(a) Defined benefit plan

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The defined benefit obligation is calculated annually using the projected unit credit method. The service of a qualified actuary is obtained to determine the valuation of the define benefit obligation for the company that adopted the actuarial valuation method in computing the provision required in accordance with LKAS 19 on "Employee Benefits". The projected unit credit method projects the current data using the actuarial assumptions and calculates projected benefits at the participants' assumed retirement date. The key assumptions used in determining the benefit obligations are given in Note 27 to these financial statements.

Provision has been made for the defined benefit plan from the first year of service for all employees in conformity with LKASs 19 on "Employee benefits".
However, under the Payment of Gratuity Act No .12 of 1983 the liability to and employee arises only on completion of five years of continued service.

b) Defined contribution plans - EPF and ETF

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Bank contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and to the Employees' Trust Fund respectively.

3.5 - Events after the reporting date

All material events occurring after the reporting date have been considered and where necessary adjustments to or disclosures have been made in the respective notes to the Financial Statements.

3.6 - Contingencies and unrecognized contractual commitments

Contingencies are possible assets or obligations that arise from past event and would be confirmed only the occurrence or non occurrence of uncertain future events, which are beyond the bank's control.

3.7- New amendments to accounting standards applicable from 1st April 2019

In these Financial Statements, the Bank has applied SLFRS 16, which is effective for the annual reporting periods beginning on or after April 1, 2019 for the first time.

3.7.1 - SLFRS 16 – Leases

Sri Lanka Accounting Standard SLFRS 16 - "Leases" (SLFRS 16) became effective for annual periods beginning on or after 1st January 2019. SLFRS supersedes LKAS 17, IFRIC 4 on "Determining whether an arrangement contains a Lease", SIC 15 on "Operating Leases – Incentives" and SIC-27 on "Evaluating the substance of transactions involving the legal form of a lease". SLFRS 16 replace the LKAS 17 and sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to recognize most leases on the SOFP. Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17 where by lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17.
The Bank recognises a lease liability at the date of initial application for leases previously classified as operating leases applying LKAS 17. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's IBR at the date of initial application.
With the initial application of SLFRS – 16 ; "Leases"; the Bank has adopted modified retrospective method from 1st April 2019, without restating comparatives for 2018/19 reporting period, as permitted under the specific transitional provisions in the standard.

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3.7.1 - SLFRS 16 – Leases (Continued…..)

The Bank recognises as right-of-use asset at the date of initial application for leases previously classified as operating leases applying LKAS 17. The Bank opted to measure the right-of-use asset at an amount equal to the lease liability, on a lease-by-lease basis, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the SOFP immediately before the date of initial application.

3.7.1.1- Policy applicable from 1 April 2019

With effect from January 1, 2019, the Bank applies this standard to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4, without reassessing whether a contract contains a lease at the date of initial application as a practical expedient. For the contracts entered on or after the effective date of transition, the Bank assesses at the inception of a contract, whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used.

After the assessment of whether a contract is, or contains, a lease, the Bank determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16. Accordingly, the right to use of an identifying asset is a separate lease component if the lessee can benefit from the use of underlying asset either on its own or together with other resources readily available to the lessee and the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

The Bank used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Bank:

- •Applied a single discount rate to a portfolio of leases with similar characteristics
- •Did not recognise right-of-use assets and liabilities for leases of low-value assets;
- •Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- •Used hindsight when determining the lease term.

(a) Bank as a lessee

At the commencement date, the Bank recognises right-of-use of an asset and a lease liability which is measured at the present value of the lease payments that are payable on that date. Lease payments are discounted using the IBR. After initial recognition, the Bank applies cost model for the right-of-use of an asset and depreciate the asset from commencement date to the end of the useful life of the underlying asset.

(b) Bank as a lessor

Similar to above, at the commencement of the contract, the Bank determines whether the contract contains a lease component and one or more additional lease components or non-lease components. When there is one or more additional lease or nonlease component, the Bank allocates consideration based on the guidelines given in SLFRS 15. However, SLFRS 16 largely retains the lessor accounting requirements in LKAS 17 and classification of leases is based on the extent to which risks and rewards incidental to ownership of leased asset lie with the lessor or lessee.

(c) Depreciation and amortization

Right-of-use assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that the Bank will obtain the ownership by end of the lease term, the assets are depreciated over the shorter of the estimated useful lives and the lease terms.

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(d) Rental expenses

Rental expense are recognized in profit or loss on an accrual basis.

3.7.1.2- Policy applicable up to 1 April 2019

Bank as a lessee

The classification of leases under LKAS 17, is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with lessor or lessee.

3.8 - Standards issued but not yet effective

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards (SLFRSs/ LKASs) which will become applicable for financial periods beginning after 1 January 2020. Accordingly, the Bank has not applied the following new standards in preparing these Financial Statements. The following amended standards are not expected to have a significant impact on the Financial Statements.

•Amendments to references to conceptual framework in Sri Lanka Financial Reporting Standards.

•Definition of a business (Amendments to SLFRS 3)

•Interest rate benchmark reforms.(Amendments to SLFRS 9,LKAS 39, and SLFRS 7)

4 - RISK MANAGEMENT

4.1 - Risk Management structure

Bank promotes a strong risk culture where employees at all levels are responsible for the management and escalation. Management expects 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 extensive 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) 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 supervises 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 determine 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 Committee and keep Corporate Centre ,India informed. Also, RCOM ensures that all strategies conform to the bank's risk appetite and the level of exposure.

The Bank has set up a comprehensive Integrated Risk Management Framework 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 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 reports to GM (RM & RC) IBG who in turn reports to CGM (Risk Management). CGM Risk Management reports to Deputy Managing Director & Chief Risk Officer (DMD & CRO). DMD & CRO reports to MD (Risk, IT & Subsidiaries) who in turn reports to Risk Management Committee of the Bank (Board Sub-Committee), thereby making risk management an independent function.

4.2 - Credit Risk

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.

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4.2 - Credit Risk (Continued....)

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 an 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 an 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 authori structure. All sanctions are subject to report to the next higher authority for control. 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 obligato 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 portfolio.

• Apart from the above, there are various credit risk mitigating techniques adopted by the Bank viz post sanction loa 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, inspection, offsite credit audit, home office audit, Internal audit, etc.

• SBI SL has a separate guideline on NPA Management which is incorporated in the Credit Policy. It describ 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 an 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, tl 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 f chalking out appropriate remedial action for risk mitigation.

• Impairment on the potential delinquents by way of reviewing objective evidence assessments by the business uni and adequacy of impairment provisions to absorb credit risk of the lending book.

4.3 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.

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4.3 Credit Concentration Risk (Continued….)

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.

4.4 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.

4.5 - Market Risk

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.

4.5 - Market Risk (Continued.....)

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.

4.6 - Operational Risk

Operational Risk Management Framework enables the Bank to identify, measure, monitor and control the inherent risks of the business / operations units to mitigate losses. SBI SL collects data through Loss events, KRIs, RCSAs, Whistle blowing; prepare and analyze various MIS including monthly KRI reports against three levels of thresholds, loss data & near-miss events, Risk registers through RCSA process and KRI trend analysis.

As part of the Bank's initiative to migrate from manual reporting of operational risk loss data / near miss events to system based reporting, the Bank has rolled-out the Incident Management Module (IMM) which enable the Bank to capture various attributes of operational loss incidents to timely & consistently report, document, analyze and monitor the Bank's operational events, losses and near miss events. Thus, the structured approach towards operational risk incidents and management thereof would bring in an overall integrity besides standardization of collection and accounting process.

The BCP of the Bank covers all arrears of banking operations with agreed arrangements for brining events under control. The BCP & DR testing are carried out semi- annually to ensure the business resilience in an event of a major system disruption.

Also, all the main processes are covered through separate Standard Operating Procedures (SOPs) .In addition to the above, a committee namely 'Preventive Vigilance Committee' is conducted on quarterly basis by each branch to serve as an effective tool for creating vigilance awareness amongst the members of the staff leading to prevention of frauds at the Branch Level.

4.7 -Liquidity Risk

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, SBI SL 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. Levels of compliance to these limits are monitored monthly by Risk department and the exceptions are reported to the Risk Management Committee of SBI Sri Lanka for corrective actions and for information. All exceptions are subsequently reported to the Chief General Manager-International Banking Group, India.

The Bank also conducts stress tests to gauge the impact under different intensities of liquidity stress. Liquidity Risk is monitored by ALCO. SBI Sri Lanka has also formulated a Contingency Funding Plan (CFP) as part of the ALM Policy to meet the gap between asset and liability under stressed scenarios.

4.8 -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 differei 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 Equit 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. ALCO has also been delegated with powers to set 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.

4.9 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".

4.10 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.

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For the year ended 31st March 2020		2020 LKR (Continued Operations)	2019 LKR (Continued Operations)	2019 LKR (Discontinued Operations)
Note 05 - Net interest income				
Interest income	Note 05.1/ Note 05.3	1,629,396,316	1,646,239,261	1,300,823
Interest expenses	Note 05.2/ Note 05.3	(426,618,905)	(476,710,320)	(529,886)
		1,202,777,411	1,169,528,941	770,937
Note 05.1 - Interest income				
Placements with banks		261,556,028	341,263,219	-
Financial assets at amortised cost - loans and advances		1,102,523,127	959,172,207	1,300,823
Total interest income		1,364,079,155	1,300,435,426	1,300,823
Note 05.2 - Interest expenses				
Due to banks		308,089,821	335,270,789	332,682.38
Financial liabilities at amortised cost - due to depositors		118,529,084	141,439,531	197,203.59
Total interest expenses		426,618,905	476,710,320	529,886
Note 05.3- Net interest income from Sri Lanka government securities				
Interest Income		265,317,161	345,803,835	-
Less : Interest expense		-	-	-
Net interest income from Sri Lanka Government Securities		265,317,161	345,803,835	-
Net interest income		1,202,777,411	1,169,528,941	770,937
Note 06 - Net fee and commission income				
Fee and commission income	Note 06.1	137,760,187	140,869,584	442,817
Fee and commission expenses		-	-	-
Net fee and commission income		137,760,187	140,869,584	442,817
Note 06.1 - Fee and commission income				
Loan processing fees		35,952,499	36,427,486	-
Trade and remittances		36,985,064	50,770,596	25,152.03
LCs and guarantees		31,971,774	18,400,717	-
Income on swift operations		7,000,466	6,093,593	25,588.00
Other banking services		25,850,384	29,177,192	392,076.48
Total commission income		137,760,187	140,869,584	442,817
Note 07 - Net gains/ (losses) from derecognition of financial assets				
Recognized at :				
Fair Value through profit or loss		-	769,700	-
Amortized cost		-	-	-
Fair value through other comprehensive income		-	-	-
		-	769,700	-
Note 08 - Net other operating income				
Gain/(Loss) on investment properties				-
Gain/(Loss) on sale of property, plant and Equipment		-	40,000	(3,005,236)
Gain on revaluation of foreign exchange		129,550,399	129,802,973	116,681
Gain on Forward foreign exchange contracts		480,762	707,332	-
Recovery of loans written-off		669,081	133,499	-
Less: Loans written off		-	-	-
Rent income		1,027,071	4,272,992	-
Dividend income		935,250	-	-
Total other operating income		132,662,563	134,956,796	(2,888,555)

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STATE BANK OF INDIA - SRI LANKA OPERATIONS
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2020	2020 LKR (Continued Operations)	2019 LKR (Continued Operations)	2019 LKR (Discontinued Operations)
Note 09 - Impairment charges			
Financial assets at amortzed cost- placements with banks (Note 17.2)			
Stage 01	(3,674,760)	2,159,005	-
Stage 02	-	-	-
Stage 03	-	-	-
	(3,674,760)	2,159,005	-
Financial assets at amortzed cost-Loans and advances (Note 18.2)			
Stage 01	13,158,306	(13,869,960)	(125,000)
Stage 02	(14,646,563)	40,765,987	
Stage 03	(168,079)	(52,911,321)	
	(1,656,336)	(26,015,294)	(125,000)
Financial assets at amortzed cost-Debt instruments (Note 19.2)			
Stage 01	2,881,631	(1,672,557)	
Stage 02	-	-	
Stage 03	-	-	
	2,881,631	(1,672,557)	-
Financial assets measured at fair value through other comprehensive income			
Stage 01	-	-	-
Stage 02	-	-	-
Stage 03	-	-	-
	-	-	-
Contingent liabilities & commitments (Note 32.1)			
Stage 01	(6,750,176)	1,594,714	
Stage 02		-	-
Stage 03		-	-
	(6,750,176)	1,594,714	-
	(9,199,640)	**(23,934,132)**	**(125,000)**
Note 10 - Personnel expenses			
Salary and bonus	102,330,127	119,114,220	1,250,565
Contributions to defined benefit plans	4,578,549	(184,977)	-
Contributions to defined contribution plans	10,148,746	10,312,956	158,683
Other allowance and staff related expenses	12,832,232	7,455,943	72,438
	129,889,654	**136,698,141**	**1,481,686**

For the year ended 31st March 2020	2020 LKR (Continued Operations)	2019 LKR (Continued Operations)	(Discontinued Operations)
Note 11 - Other expenses			
Director's emoluments	-	-	-
Auditor's emolument	3,676,713	4,953,638	(698,199)
Professional and legal expenses	3,731,724	2,154,904	-
Depreciation on property, plant and equipment	24,767,046	10,989,928	436,842
Office administration and establishment expenses	13,433,222	39,373,350	1,551,815
Repairs and maintenance of premises, computer and electricity expenses	61,020,544	32,742,286	128,372
Advertisement	2,712,072	1,436,795	-
Brokerage charges	1,548,579	1,648,357	-
Security charges	8,714,677	8,397,423	351,900
Head office expenses	10,222,861	11,528,175	-
Insurance	7,003,133	6,194,984	-
Donation	100,000	-	-
Subscription	1,198,517	700,776	-
Loss from disposal of property, plant and equipment	547,194	-	-
Rent, Rates and taxes	96,044,419	67,334,350	-
Miscellaneous expenses	14,887,414	13,707,609	134,905
Nostro accounts maintenance expenses	2,710,614	2,911,248	-
Promotional expenses	3,079,654	-	-
License fees	4,423,984	5,802,480	-
Lease interest and amortization adjustment on SLFRS 16	6,205,435	-	-
	266,027,802	209,876,303	1,905,635

Note 12 - Value Added Taxes and Nation Building Taxes on Financial Services (FSVAT & FSNBT)

Value Added Tax on Financial Services - Current Year	155,313,080	153,192,735	-
- Over provision previous year	-	4,097,740	-
	155,313,080	157,290,476	-
Nation Building Tax on Financial Services	16,967,105	23,839,615	-
	172,280,185	181,130,091	-

Note 13 - Income tax expenses

Current tax expenses			
Current year	371,556,492	340,401,409	-
Prior years' (over) / Under provision	-	23,106,712	-
Deffered tax expense			
Tempory differences	3,589,037	(21,784)	(1,197,036)
	375,145,529	363,486,337	(1,197,036)

13.1 Reconciliation of tax expenses

Income tax for the period	293,350,233	262,476,899	-
Add: Tax effect of expenses that are not deductible for tax purpose	265,931,449	89,707,710	-
(Less): Tax effect of expenses that are deductible for tax purpose	(187,725,190)	(11,783,200)	-
Tax expense for the period	**371,556,492**	**340,401,409**	**-**

13.2 The deffered tax (credit) /charge in the income statement comprise of the following

Deffered tax assets	7,947,331	357,887	-
Deffered tax liabilities	(11,536,368)	(379,671)	1,197,036
Deffered tax (credit)/chrge in the income statement	(3,589,037)	(21,784)	1,197,036

Provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purpose in accordance with the

provisions of the Inland Revenue Act No.24 of 2017 and the amendments thereto, at 28% till 31.12.2019 and at 24% w.e.f. 01.01.2020

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As at 31st March 2020

Note 14 - Analysis of financial analysis of finacial instrument by measurement basis

31-Mar-20

Assets	Financial assets at amortized cost (LKR.)	Financial assets recognized through profit or loss (LKR.)	Financial assets recognized through other comprehensive income (LKR.)	Total (LKR.)
Cash and cash equivalent	795,822,759	-	-	795,822,759
Balances with central bank	868,669,741	-	-	868,669,741
Placements with banks	1,426,456,171	-	-	1,426,456,171
Derivative financial instruments	-	-	-	-
Loans and advances	18,399,121,819	-	-	18,399,121,819
Debt instruments	4,596,218,669	-	297,199,997	4,893,418,666
Equity instruments		-	530,000	530,000
others (Specify)	-	-	-	-
Total financial assets	26,086,289,158	-	297,729,997	26,384,019,155

Liabilities	Financial liabilities at amortized cost (LKR.)	Financial liabilities recognized through profit or loss (LKR.)	Total (LKR.)
Due to banks	10,725,660,593	-	10,725,660,593
Derivative fianncial instruments		-	-
Financial liabilities		-	-
Due to depositors	-	-	-
Due to debt security holders	-	-	-
Due to other borrowers	-	-	-
Financial liabilities at amortised Cost		-	-
Due to depositors	4,807,324,455	-	4,807,324,455
Due to debt security holders		-	-
Due to other borrowers		-	-
Sundry creditors and accrued expenses	52,996,940	-	52,996,940
Total financial liabilities	15,585,981,988	-	15,585,981,988

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As at 31st March 2020

Note 14 - Analysis of financial analysis of finacial instrument by measurement basis (Continued...)

31-Mar-19				
Assets	Financial assets at amortized cost (LKR.)	Financial assets recognized through profit or loss (LKR.)	Financial assets recognized through other comprehensive income (LKR.)	Total (LKR.)
Cash and cash equivalent	447,133,794	-	-	447,133,794
Balances with central bank	972,979,356	-	-	972,979,356
Placements with banks	4,965,354,613	-	-	4,965,354,613
Derivative financial instruments	-	-	-	-
Loans and advances	14,032,075,768	-	-	14,032,075,768
Debt instruments	4,301,652,146	-	1,387,574,320	5,689,226,466
Equity instruments	-	-	530,000	530,000
others (Specify)	-	-	-	-
Total financial assets	24,719,195,678	-	1,388,104,320	26,107,299,998

Liabilities	Financial liabilities at amortized cost (LKR.)	Financial liabilities recognized through profit or loss (LKR.)	Total (LKR.)
Due to banks	9,150,098,110	-	9,150,098,110
Derivative fianncial instruments	-	-	-
Financial liabilities		-	-
Due to depositors	-	-	-
Due to debt security holders	-	-	-
Due to other borrowers	-	-	-
Financial liabilities at amortised Cost		-	-
Due to depositors	6,633,936,603	-	6,633,936,603
Due to debt security holders		-	-
Due to other borrowers		-	-
Sundry creditors and accrued expenses	64,014,655	-	64,014,655
Total financial liabilities	15,848,049,368	-	15,848,049,368

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As at 31st March 2020	2020 LKR	2019 LKR
Note 15 - Cash and cash equivalent		
Cash in hand	75,653,312	65,486,140
Balances With Banks	201,977,483	116,997,760
Balances With Branches	518,191,964	264,649,895
	795,822,759	**447,133,794**

Note 16 - Balances with Central Bank of Sri Lanka		
Statutory deposits with Central Bank of Sri Lanka	168,669,741	159,443,312
Non-statutory balances with Central Bank of Sri Lanka	700,000,000	813,536,044
	868,669,741	**972,979,356**

Balances with Central Bank of Sri Lanka represents the cash balances that is required to be maintained as per the provisions of Section 93 of the Monetary Law Act. The minimum cash reserve requirement on rupee deposit liability was 4% as at 31st March 2020 (2019 - 7.5%).

Note 17 - Placements with banks		
Placement within Sri Lanka	1,046,491,622	2,561,809,978
Placements outside Sri Lanka	380,332,499	2,407,587,345
Less Allowances for Impairment (Note 17.2)	(367,950)	(4,042,710)
Total	**1,426,456,171**	**4,965,354,613**

17.1. Analysis		
By collateralisation		
Pledged as collateral	-	-
Unencumbered	1,426,824,121	4,969,397,323
Gross total	**1,426,824,121**	**4,969,397,323**
By currancy		
Sri Lanka Rupee	-	1,501,517,671
Australian Dollar	-	634,440
United States Doller	1,426,824,121	3,467,245,212
Gross total	**1,426,824,121**	**4,969,397,323**

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As at 31st March 2020	2020 LKR	2019 LKR
17.2 Movements in impairement during the year		
Stage 01		
Opening balance as at 1st of April	4,042,710	-
Day 1 Impact from the application of SLFRS 09	-	1,883,705
Charge/(writeback) to income statements	(3,674,760)	2,159,005
Writeoff during the year	-	-
Other movements	-	-
Closing balance as at 31st March	**367,950**	**4,042,710**
Stage 02		
Opening balance as at 1st of April	-	-
Charge/(writeback) to income statements	-	-
Writeoff during the year	-	-
Other movements	-	-
Closing balance as at 31st March	-	-
Stage 03		
Opening balance as at 1st of April	-	-
Charge/(writeback) to income statements	-	-
Writeoff during the year	-	-
Other movements	-	-
Closing balance as at 31st March	-	-

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As at 31st March 2020		2020 LKR	2019 LKR
Note 18 - Financial assets at amortized cost Loan and advances			
Gross Loans and advances			
Stage 01		17,009,398,819	12,070,254,840
Stage 02		1,428,703,092	1,996,352,414
Stage 03		80,703,523	86,808,466
	Note 18.1	18,518,805,435	14,153,415,720
Less : Accumulated impairement			
Stage 01		(81,263,857)	(68,105,551)
Stage 02		(38,419,759)	(53,066,322)
Stage 03		-	(168,079)
	Note 18.2	(119,683,616)	(121,339,951)
Net loans and advances		18,399,121,819	14,032,075,768

Note 18.1 - Analysis

	2020 LKR	2019 LKR
By product		
Overdraft	2,320,187,517	2,897,706,529
Trade finance	847,866,856	231,726,146
Staff loans	60,821,861	52,416,761
Term loans		
Short term	1,173,339,006	208,631,485
Long term	14,116,590,195	10,762,934,799
Other		
Sri lanka government securities(Seperately by instrument wise)	-	-
Others (Please specify)	-	-
Gross total	18,518,805,435	14,153,415,720
By currancy		
Sri Lanka rupee	7,408,584,173	5,776,996,410
United states dollar	11,110,221,262	8,376,419,309
Gross total	18,518,805,435	14,153,415,720
By industry		
Agriculture and fishing	1,600,454,480	2,376,123,280
Engineering and building	-	-
Manufactuing	3,184,277,914	1,321,323,373
Tourism	-	-
Transport	12,295,675	34,146,018
Construction	4,386,413,694	1,750,308,302
Traders	3,398,202,593	2,218,459,186
New economy	-	-
Others (please specify)	5,937,161,080	6,453,055,560
Gross total	18,518,805,435	14,153,415,720

Note 18.2 Movements in impairement during the year

	2020 LKR	2019 LKR
Stage 01		
Opening balance as at 1st of April	68,105,551	57,201,000
Day 1 Impact from the application of SLFRS 09	-	29,246,762
Charge/(writeback) to income statements	13,158,306	(13,869,960)
Writeoff during the year	-	
Other movements	-	(4,472,251)
Closing balance as at 31st March	81,263,857	68,105,551
Stage 02		
Opening balance as at 1st of April	53,066,322	-
Day 1 Impact from the application of SLFRS 09	-	12,300,335
Charge/(writeback) to income statements	(14,646,563)	40,765,987
Writeoff during the year	-	-
Other movements	-	-
Closing balance as at 31st March	38,419,759	53,066,322
Stage 03		
Opening balance as at 1st of April	168,079	147,184,505
Day 1 Impact from the application of SLFRS 09	-	(66,509,015)
Charge/(writeback) to income statements	(168,079)	(52,911,321)
Writeoff during the year	-	(17,715,058)
Other movements	-	(9,881,032)
Closing balance as at 31st March	-	168,079

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As at 31st March 2020	2020 LKR	2019 LKR
Note 19 - Financial assets at amortized cost - Debt and other instruments		
Sri Lanka Government securities (SLDB)	4,425,554,945	4,101,652,146
Investment in Fixed Deposit	200,000,000	200,000,000
Less Allowances for Impairment Losses (Note 19.2)	(29,336,276)	-
Total	4,596,218,669	4,301,652,146
Note 19.1 - Analysis		
By collateralisation		
Pledged as collateral	-	-
Unencumbered	4,625,554,945	4,301,652,146
Gross total	4,625,554,945	4,301,652,146
By currancy		
Sri Lanka Rupee	200,000,000	200,000,000
United States Doller	4,425,554,945	4,101,652,146
Gross total	4,625,554,945	4,301,652,146
Note 19.2 - Movements in impairement during the year		
Stage 01		
Opening balance as at 1st of April	-	-
Day 1 Impact from the application of SLFRS 09	-	-
Charge/(writeback) to income statements	2,881,631	-
Writeoff during the year	-	-
Other movements	26,454,645	-
Closing balance as at 31st March	29,336,276	-
Stage 02		
Opening balance as at 1st of April	-	-
Charge/(writeback) to income statements	-	-
Writeoff during the year	-	-
Other movements	-	-
Closing balance as at 31st March	-	-
Stage 03		
Opening balance as at 1st of April	-	-
Charge/(writeback) to income statements	-	-
Writeoff during the year	-	-
Other movements	-	-
Closing balance as at 31st March	-	-
Note 20 - Financial assets at fair value through other comprehensive income		
Sri Lanka Government Securities - Treasury Bills	297,199,997	1,387,574,320
Equity securities		
Lanka Clear (Pvt) Ltd	500,000	500,000
Credit Information Bureau	30,000	30,000
Corporate debt securities	-	-
Others	-	-
(Less):Allowance for impairment losses	-	-
	297,729,997	1,388,104,320
Note 20.1 - Analysis		
By collateralisation		
Pledged as collateral	-	-
Unencumbered	297,729,997	1,388,104,320
Gross total	297,729,997	1,388,104,320
By currancy		
Sri Lanka Rupee	297,729,997	1,388,104,320
United States Doller	-	-
Gross total	297,729,997	1,388,104,320

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Note 21 - Property, plant and equipment

Cost	Opening balances on 01.04.2019 LKR.	Additions LKR.	Disposal / Written off/ Trasnfers LKR.	Currency Translation Adjustment LKR.	Closing balance on 31.03.2020 LKR.
Premises	3,220,577	431,224,835	-		434,445,412
Computer hardware	43,188,934	209,758	(5,441,343)	(1,406,317)	36,551,033
Computr software	1,792,389	503,378	(46,134)	421,239	2,670,873
Office equipment , furniture and fittings	37,131,611	165,145,958	(7,427,386)	1,123,514	195,973,697
Motor vehicle and elevators	4,333,333	29,538,946	-	-	33,872,279
Capital work-in-progress	167,303,887	456,821,101	(607,190,714)	-	16,934,274
	256,970,731	1,083,443,976	(620,105,577)	138,436	720,447,568

Accumulated depreciation	Opening balance on 01.04.2019 LKR.	Additions LKR.	Disposal / Written off LKR.	Currency Translation Adjustment LKR.	Closing balance on 31.03.2020 LKR.
Premises	3,120,030	5,395,338	-	-	8,515,368
Computer Hardware	31,845,222	5,152,319	(5,348,958.90)	(19,941.00)	31,628,641
Computr Software	1,792,234	503,378	(46,133.97)	421,394	2,670,872
Office equipment Furniture and Fittings	26,452,853	12,238,420	(6,936,818.75)	971,567	32,726,021
Motor Vehicle & Elevators	4,333,333	1,477,591	-	-	5,810,924
Capital work-in-progress	-	-	-	-	-
	67,543,672	24,767,046	(12,331,912)	1,373,020	81,351,827

	Net book value on 31.03.2019 LKR.	Net book value on 31.03.2020 LKR.
Premises	100,547	425,930,044
Computer Hardware	11,343,711	4,922,391
Computr Software	155	-
Office equipment Furniture and Fittings	10,678,758	163,247,676
Motor Vehicle	-	28,061,355
Capital work-in-progress	167,303,887	16,934,274
	189,427,060	639,095,741

Note 22 - Deferred tax assets

Balance at the beginning of the year	56,603,156	55,384,941
(Charged)/credit to profit or loss for the year	(3,589,817)	1,218,819
Charged to other comprehensive income	389	(604)
Balance at the end of the year	53,013,728	56,603,156

	2020		2019	
	Temporary Difference LKR	Tax Effect LKR	Temporary Difference LKR	Tax Effect LKR
Deferred Tax Assets				
Defined Benefit Obligation	232,475,517	65,093,145	204,092,200	57,145,816
Deferred Tax Liabilities				
Property, Plant & Equipment	(43,140,772)	(12,079,416)	(1,938,071)	(542,660)
	275,616,289	53,013,728	202,154,129	56,603,156

As at 31st March 2020	2020 LKR	2019 LKR
Note 23 - Other assets		
Stationery	677,248	923,237
Receivables	1,900,075	3,590,999
Deposits and prepayments	1,524,250	87,761,098
Forex revaluation provision	179,749	119,198
Miscellaneous assets	1,900,088	1,461,337
ATM Settlement	3,610,052	-
Others	-	-
Total Other assets	9,791,462	93,855,869

As at 31st March 2020	2020 LKR	2019 LKR
Note 24 - Due to banks		
Money market borrowings	10,028,050,518	8,502,912,665
Balances of branches	695,872,839	645,578,472
Balances with banks	1,737,236	1,606,973
	10,725,660,593	**9,150,098,110**
Note 25 - Due to other customers		
Total amount due to other Customers	4,807,324,455	6,633,936,603
	4,807,324,455	**6,633,936,603**
Note 25.1 - Product wise Analysis		
Demand deposits (current accounts)	2,272,638,043	3,230,160,332
Savings deposits	855,285,913	777,756,157
Fixed deposits	1,644,501,248	2,586,057,372
Margin accounts	28,364,534	26,960,121
Sundry deposits and bankers cheque issue account	6,534,717	13,002,620
Total	**4,807,324,455**	**6,633,936,602**
Note 25.2 - Currency wise Analysis		
Sri Lankan Rupees	3,130,066,858	4,028,923,218
United State Dollars	1,614,871,810	2,473,022,760
GBP	26,249,809	73,562,187
Singapore Dollars	26,712	25,962
Others	36,109,267	58,402,475
Total	**4,807,324,455**	**6,633,936,602**

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As at 31st March 2020	2020 LKR	2019 LKR
Note 26 - Retirement benefit oblligation		
Balance at the beginning of the year	204,092,200	204,648,635
Add: Provision made during the year	26,941,962	25,683,181
Actuarial gain/(loss)	24,251,306	(2,326,147)
Less: Payment made during the year	(22,809,951)	(23,913,469)
Balance at the end of the year	232,475,517	204,092,200

Acturial & Management Consultants (Pvt) Ltd, the acturies, carried out an acturial valuation of the retirement benefit obligation on 31st March 2020. Appropriate and compatible assumptions were used in determining the cost of retirement

The principle financial assumptions used are as follows		
Long Term Interest Rate	10%	10%
Future Salary Increment Rate	15%	15%
Staff Turnover Ratio	0%	0%
Retirement age	55	55

Note 27 - Other liabilities		
Sundry creditors	29,113,779	19,027,729
Accrued expenses	23,883,161	44,986,926
Withholding tax payables	154,104	3027159.24
ATM settlement account	-	9,473,415
Deferred commission income	33,663,538	8,456,073
Deferred impairement	-	16,591,469
Impairment allowance for off-balance sheet credit exposures	8,781,813	15,531,989
Others	2,040,269	1,050,090
	97,636,664	**118,144,851**

Note 28 - Assigned capital		
Assigned Capital	1,566,460,000	1,566,460,000
Funds from Central Office	831,951,309	831,951,309
Support fund	44,416,145	44,416,145
Total	**2,442,827,454**	**2,442,827,454**

Note 29 - Statutory reserve fund		
Balance at the beginning of the year	340,923,557	307,144,649
Transfer during the year	26,915,555	33,778,908
Balance at the end of the year	367,839,112	340,923,557

Statutory Reserve Fund is maintained as per the statutory requirement in terms of section 20(1) and (2) of the Banking Act No.30 of 1988. The fund is built by transferring sum equivalent to not less than 5% of the Profit after tax or any profits are transferred until the fund equals to 50% of the banks stated capital. Thereafter a further sum equal to the 2% of profit after tax is transferred until the fund equals to the stated capital of the bank.

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As at 31st March 2020	2020 LKR	2019 LKR
Note 30 - Retained earnings		
Balance at the beginning of the year	6,172,397,734	5,649,067,100
Day 1 Impact from the application of IFRS	-	(14,494,866)
Profit for the year	539,056,630	573,931,159
Other Comprehensive income for the year	(24,251,695)	(2,326,751)
Transferred to Statutory reserve fund	(26,915,555)	(33,778,908)
Balance at the end of the period	6,660,287,115	6,172,397,734
Note 31 - Other reserves		
Note 31.1 Fair vlaue through other comprehensive income reserve		
Balance at the beginning of the year	(780,721)	-
Transfer during the year	1,281,001	(780,721)
Balance at the end of the year	500,280	(780,721)
Note 31.2 Foreign currency translation reserve		
Balance at the beginning of the year	1,260,793,361	745,351,886
Transfer during the year	364,804,108	515,441,475
Balance at the end of the year	1,625,597,469	1,260,793,361
Total other reserves	**1,626,097,749**	**1,260,012,640**

Note 32 - Contingent liabilities

In the normal course of business, the bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

Guarantees	8,362,753,797	10,577,852,024
Letter of Credit	1,491,024,975	1,917,432,884
Bills for collection	4,132,272,187	3,994,799,137
Advances under collection	2,109,140,374	1,961,731,741
Acceptances	367,906,013	417,471,070
Undrawn commitments	2,297,639,894	3,709,615,149
	18,760,737,239	**22,578,902,005**
32.1 - Movements in impairement during the year		
Opening balance as at 1st of April	15,531,989	-
Day 1 Impact from the application of SLFRS 09	-	13,937,275
Charge/(writeback) to income statements	(6,750,176)	1,594,714
Net Writeoff during the year	-	-
Exchange rate variance and other adjustments	-	-
Closing balance as at 31st March	8,781,813	15,531,989
Net contingent liabilities	18,751,955,426	22,563,370,016

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For the year ended 31st March 2020	2020 LKR	2019 LKR
Note 33 - Transactions with Key Management Personnel (KMPS)		
Key Management Personnel (KMP) include the key management of the bank, having authority for planning and controlling the activities of the entity directly and indirectly.		
Short Term Employee Benefits	5,892,614	7,769,572
Deposits Received from KMP's	5,962,839	3,451,192
Note 34 - Notes to the Statement of Cashflows		
Note 34.1 - Non cash items included in the profit before tax		
Depreciation on property, plant and equipment	24,767,046	11,426,769
Gratuity Provision	26,941,962	(184,977)
FS VAT & NBT Provision	-	-
Impairment for loans and other losses	(9,199,640)	(23,934,132)
Loss on asset disposal	547,194	3,045,236
Capital loss on sale of investment	-	-
	43,056,562	(9,647,104)
Note 34.2 - Change in operating assets		
Net (increase) / decrease in loans and receivables to customers	(4,365,389,716)	(3,093,432,360)
Net (increase) / decrease in other assets	84,064,407	(72,214,612)
Net (increase) / decrease in balance with Central Bank	104,309,615	(630,293,867)
Net (increase) / decrease in placements with banks	3,542,573,202	1,480,989,970
Net (increase) / decrease in derivative financial instrument	-	
	(634,442,491)	(2,314,950,869)
Note 34.3- Change in Operating Liabilities		
Net increase / (decrease) in Derivative Financial Instrument	-	(4,150)
Net increase / (decrease) Change in deposits from banks	1,575,562,483	(19,712,358)
Net increase / (decrease) Change in deposits from customers	(1,826,612,148)	610,328,991
Net increase / (decrease) Change in other payable	-	
Net increase / (decrease) Change in other liabilities	(20,508,187)	33,065,440
	(271,557,852)	623,677,923

Note 35 - Capital commitments

There were no material capital commitments as at 31st March 2020.

Note 36 - Events after the reporting date

No circumstances have arisen after the reporting date which would require adjustment to or disclosure in the Financial statements. Possible impact of Coronavirus (COVID 19) to the Sri Lanka operations of the Bank have been disclosed in Note 40.

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Note 37 - Financial instruments - Fair values

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

As at 31 March	2020				2019			
	Fair Value Measurement Using				Fair Value Measurement Using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Financial Assets measured at fair value								
Financial assets measured at fair value through other comprehensive income								
Government securities	-	297,199,997		**297,199,997**	-	1,387,574,320	-	**1,387,574,320**
Unquoted equity Securities	-		530,000	**530,000**	-	-	530,000	**530,000**
	-	297,199,997	530,000	**297,729,997**	-	1,387,574,320	530,000	**1,388,104,320**

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As at 31st March 2020

Note 38 - Maturity analysis

An analysis of the assets and liabilities based on the remaining period at the reporting date to the respective contractual maturity dates is as follows.

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Assets	LKR.	LKR.	LKR.	LKR.	LKR.	LKR.
Interest Bearing Assets						
Balances with Central Bank	700,000,000	-	-	-	-	700,000,000
Placements with banks	1,426,456,171	-	-	-	-	1,426,456,171
Financial assets at amortised cost - Loans and receivables to customers	5,054,979,694	2,461,763,174	9,466,440,418	1,369,006,737	46,310,695	18,398,500,719
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	297,729,997
	7,478,635,862	5,144,139,623	11,380,282,639	1,369,006,737	46,840,695	25,418,905,556
Non Interest Bearing Assets						
Cash and cash equivalents	795,822,759	-	-	-	-	795,822,759
Balances with Central Bank	168,669,741	-	-	-	-	168,669,741
Financial assets at amortised cost - Loans and receivables to customers	183,930	437,170	-	-	-	621,100
Derivative Financial Instrument	-	-	-	-	-	-
Current Tax Asset	-	-	-	-	-	-
Deffered Tax asset	-	-	-	-	53,013,728	53,013,728
Other Assets	9,791,462	-	-	-	21,599,848	31,391,310
Property, Plant and Equipment		-	-	-	639,095,741	639,095,741
	974,467,892	437,170	-	-	713,709,317	1,688,614,379
	8,453,103,754	5,144,576,793	11,380,282,639	1,369,006,737	760,550,012	27,107,519,935
Liabilities						
Interest Bearing Liabilities						
Due to Banks	-	3,232,364,534	6,699,762,772	95,923,210	-	10,028,050,516
Due to Other Customers	1,464,271,156	716,392,455	319,123,550	-	-	2,499,787,161
	1,464,271,156	3,948,756,990	7,018,886,322	95,923,210	-	12,527,837,677
Non Interest Bearing Liabilities						
Due to banks	697,610,077	-	-	-	-	697,610,077
Due to other customers	2,307,537,294	-	-	-	-	2,307,537,294
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
Derivative Financial Instruments	-	-	-	-	-	-
Provision for Retiring Gratuity	-	-	-	-	232,475,517	232,475,517
Other liabilities	97,636,664	-	-	-	17,426,365	115,063,029
Current tax liabilities	129,944,912	-	-	-	-	129,944,912
Other Payable	-	-	-	-	-	-
Total Liabilities	3,232,728,947	-	-	-	11,346,953,311	14,579,682,258
	4,697,000,103	3,948,756,990	7,018,886,322	95,923,210	11,346,953,311	27,107,519,935

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Note 39 - Analysis for credit risk and liquidity risk

Note 39.1 - Credit quality by class of financial assets

	2020				2019			
	Neither past due nor impaired LKR	Past due but not imparied LKR	Individually impaired LKR	Total LKR	Neither past due nor impaired LKR	Past due but not imparied LKR	Individually impaired LKR	Total LKR
Cash and cash equivalents	795,822,759			**795,822,759**	447,133,794	-	-	**447,133,794**
Balances with Central Bank of Sri Lanka	868,669,741			**868,669,741**	972,979,356	-	-	**972,979,356**
Placements with banks	1,426,456,171			**1,426,456,171**	4,965,354,613	-	-	**4,965,354,613**
Derivative financial instruments	-			**-**	-	-	-	**-**
Financial assets recognized through profit or loss				**-**				
Measured at fair value	-			**-**	-	-	-	**-**
Designated at fair value	-			**-**	-	-	-	**-**
Financial assets at amortised cost	-			**-**				
loans and advances	16,928,134,962	1,390,283,333	80,703,523	**18,399,121,819**	12,002,149,289	1,943,286,092	86,640,387	**14,032,075,768**
debt and other instruments	4,596,218,669			**4,596,218,669**	4,301,652,146	-	-	**4,301,652,146**
Financial assets measured at fair value through other comprehensive income	297,729,997	-	-	**297,729,997**	1,388,104,320	-	-	**1,388,104,320**
Contingencies and commitments	18,751,955,426			**18,751,955,426**	22,563,370,016	-	-	**22,563,370,016**
				-				
	46,640,743,535	**1,943,286,092**	**86,640,387**	**48,670,670,014**	**46,961,342,273**	**312,195,021**	**105,845,981**	**47,379,383,275**

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As at 31st March 2020

Note 39.2 - Maximum exposure to credit risk

As at 31 March 2020	**Maximum exposure to credit risk LKR**	**Collateral value LKR**	**Net exposure LKR**
Cash and cash equivalents	795,822,759		795,822,759
Balance with Central Bank of Sri Lanka	868,669,741		868,669,741
Placement with Banks	1,426,456,171		1,426,456,171
Financial assets at amortized cost			-
Loans and advances	18,399,121,819	12,536,582,044.4	5,862,539,774
Debt instruments	4,596,218,669		4,596,218,669
Financial assets through other comprehensive income	297,729,997		297,729,997
Total	**26,384,019,155**	**12,536,582,044**	**13,847,437,111**

As at 31st March 2019	**Maximum exposure to credit risk LKR**	**Collateral value LKR**	**Net exposure LKR**
Cash and cash equivalents	447,133,794	-	447,133,794
Balance with Central Bank of Sri Lanka	972,979,356	-	972,979,356
Placement with Banks	4,965,354,613	-	4,965,354,613
Financial assets at amortized cost			
Loans and advances	14,032,075,768	7,990,384,792	6,041,690,976
Debt instruments	4,301,652,146	-	4,301,652,146
Financial assets through other comprehensive income	1,388,104,320	-	1,388,104,320
Total	**26,107,299,997**	**7,990,384,792**	**18,116,915,205**

Note 40 - Impact of COVID 19

Note 40.1 - Regulatory measures taken by Central Bank of Sri Lanka

Refinance facility introduced by the Central bank of Sri Lanka (CBSL)

Having identified the national importance of reviving the businesses adversely affected by the COVID-19 outbreak in order to contain the hampering of living conditions of the Sri Lankans and the economic growth of the country as a whole, CBSL introduced a new refinance facility for the businesses adversely affected by the COVID-19 outbreak, under the Saubagya (Prosperity) Loan Scheme ('Saubagya Covid-19 Renaissance Facility'), to provide working capital loans at 4 per cent (p.a.) interest rate to businesses adversely affected by the COVID-19 outbreak, through Licensed Banks, thereby supporting the revival of economic activity in the country. This Loan Scheme is available for COVID-19 affected businesses with an annual turnover below Rs. 1 billion, including self-employment and individuals. The Rs. 1 billion limit of annual turnover will not be applicable to businesses engaged in tourism, exports and related logistical supplies. COVID-19 affected businesses and individuals could submit their loan applications under the above Loan Scheme to respective banks until 15th May 2020.

Accordingly, as of 30 June 2020 there were 05 applications registered in CBSL, that are received to State Bank of India - Sri Lanka Branch from customers for a value of Rs 78.8 Mn. From these application as of 30 June 2020, the Bank has not disbursed any.

Extraordinary regulatory measures taken by CBSL

On 05 May 2020, The Monetary Board of the Central bank of Sri Lanka (CBSL) granted approval for the following extraordinary measures to strengthen the liquidity position of licensed banks to ensure continued supply of credit and to meet urgent liquidity needs of banks.

- Provide additional funding under the refinance facility or through credit operations under the Monetary Law Act, enabling the banking sector to provide working capital and other loans at concessionary rates of interest, to spur demand in the economy.

- Permit licensed banks to consider certain assets as liquid assets in the computation of Statutory Liquid Assets Ratio (SLAR) under the Banking Act during the period up to 30 June 2021, subject to hair-cut and other conditions. Licensed Banks will be notified of these assets in due course.

- Permit licensed banks to operate maintaining a Liquidity Coverage Ratio and Net Stable Funding Ratio at 90%, in this exceptional circumstance, with enhanced supervision and frequent reporting up to 30 June 2021.

- Allocate funds from the Sri Lanka Deposit Insurance and Liquidity Support Scheme as liquidity support to the banking sector.

- Provide liquidity to banks under the provisions of the Monetary Law Act as emergency loans and advances in Rupee and facilitate the supply of liquidity for banks which are in need of funds. Such funds will be made available under an approved framework of emergency loans and advances to Licensed Banks based on acceptable collateral and liquidity forecasts.

Note 45.2 - Impact on going concern and financial reporting of Sri Lanka operations

Impact on going concern

In determining the basis of preparing the financial statements for the year ended 31 March 2020, 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.

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Note 40.2 - Impact on going concern and financial reporting of Sri Lanka operations (Continued)

Impact on financial reporting

Fair valuation of Financial investments at fair value through other comprehensive income

COVID – 19 pandemic has created a situation where the volume of activities for several assets and liabilities being curtailed resulting their values to significantly reduce along with the reduced market activities in an active manner. As per the guidelines issued by CA Sri Lanka and the provisions in SLFRS13–Fair value measurement, there is an impossibility to derive the fair value of financial assets as at 31 March 2020 due to unavailability of reliable information and distress prices.

As per the Guidance Notes on Accounting Considerations of the COVID 19 Outbreak (updated on 11th May 2020) by CA Sri Lanka, it is permitted to apply an appropriate valuation technique to measure the fair value of financial assets. However, such values calculated and used as the fair value in the financial statements for the period 2019/2020 by using different valuation techniques are not expected to exceed the market value reported as at 31st December 2019.

Accordingly the bank has used the last traded market prices available as at 31 March 2020 for the fair valuation of investment in quoted equity securities.

Impairment provision on loans and receivables at amortized cost

CA Sri Lanka in its Guidance Notes on Accounting Considerations of the COVID 19 Outbreak (updated on 11th May 2020) has decided to provide certain temporary practical expedients in the application of certain provisions in SLFRS 9, considering the insufficiency of updated information, uncertainty relating to borrowers repayment ability, resource constraints and various government relief measures as a result of the outbreak, even though circumstances require reassessment of all the factors for the preparation of financial statements for the reporting on 31 March 2020 financial statements and thereon. Accordingly, an entity may continue using the information used for Probability of Default (PD), Loss Given Default (LGD), Economic Factor Adjustment (EFA) and cash flow assumptions in 31 December 2019 during the January to March period subject to appropriate adjustments being incorporated, when the information become available subsequently.

Accordingly, The Bank continued the same staging that exists as of 31 March 2020 and Economic factor adjustment used in 31st December 2019 for the ECL Computations due to uncertainties and lack of sufficient information available to make any adjustments to factor the impact of COVID 19. Calculations of LGDs have considered cash flows up to 31 March 2020.

Interest income

Based on the Debt Moratoriums as per the Circular No.'s 4 and 5 of 2020 issues by Monetary Board, Central Bank of Sri Lanka extension of payment holidays granted to borrowers in specific industries.

Accordingly, for receivables that not impaired, interest has to be accrued throughout the period applying the original Effective Interest Rate(EIR) in accordance with SLFRS 9.5.4.1 and SLFRS 9.5.4.2 applied the gross caring amount of the financial assets. Consequently, the modification gain or loss shall be charged to profit or loss immediately. This is on the basis that the modification is not substantial. If there is a substantial modification, that would result in recognition of the financial assets consequently a new asset would be recognized and the EIR would be restated based on the pre modification carrying value and revised cash flows.

For impaired receivables, interest revenue shall be accrued in the financial statements for the credit impaired assets by applying the original EIR on the net carrying value, after adjusting for Expected Credit Loss.

Currently the Bank has accounted the interest income based on SLFRS 9 and in the process of finalizing the customer debt relief applications in order to identify whether the modification terms are substantial or not.

Note 40.3 - Industry - wise credit risk, business risk and overall risk analysis :

Industry	Credit exposure as at 31.03.2020 (LKR)	Credit risk	Business risk	Overall risk
Agriculture and fishing	1,600,454,480	Medium	Medium	Medium
Banking and Financial	5,167,470,122	Low	Low	Low
Manufacturing	3,184,277,913	Medium	Medium	Medium
Transport	12,295,675	Low	Low	Low
Construction	4,386,413,694	Low	Low	Low
Traders	3,398,202,593	Medium	Medium	Medium
NBFC	450,989,479	Low	Low	Low
Other	318,701,479	Low	Low	Low

Following criteria considered when performing the credit risk analysis.
- Management assessment on COVID 19 to customers' re payment capacity based on the industry.
- Requests made by the customers to obtain debt moratorium facilities.
- Repayments received from customers after the reporting date from March 2020 to June 2020.

Following criteria considered when performing the business risk analysis.
- Management assessment on COVID 19 to customers' operations based on the industry.
- Decrease in obtaining letter of credits and other import / export related facilities by customers from March 2020 to June 2020.
- Import restrictions imposed by the government during COVID 19 period.
- Management assessment for limitations for international trading.
- Pattern of receiving applications for new facilities.

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