

Notes to the Financial Statements

1 Reporting entity →

1.1 Corporate information

DFCC Bank PLC (“the Bank”) is a limited liability public company incorporated and domiciled in Sri Lanka.

The Bank was incorporated in 1955 under DFCC Bank Act No. 35 of 1955 as a limited liability public company. The ordinary shares of the Bank were listed in the Colombo Stock Exchange (CSE).

Consequent to the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955 was repealed and the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited company listed in the Colombo Stock Exchange with the name “DFCC Bank PLC” with effect from 6 January 2015.

DFCC Bank PLC (DFCC) also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988, as amended, and accordingly upon the amalgamation with DFCC Vardhana Bank PLC now operates as a licensed commercial bank.

The registered office of the Bank is at No. 73/5, Galle Road, Colombo 3.

Total staff strength of the Group and Bank on 31 December 2020 was as follows:

Group	2,182 (31 December 2019 – 2,192)
Bank	2,072 (31 December 2019 – 2,076)

1.2 Consolidated Financial Statements

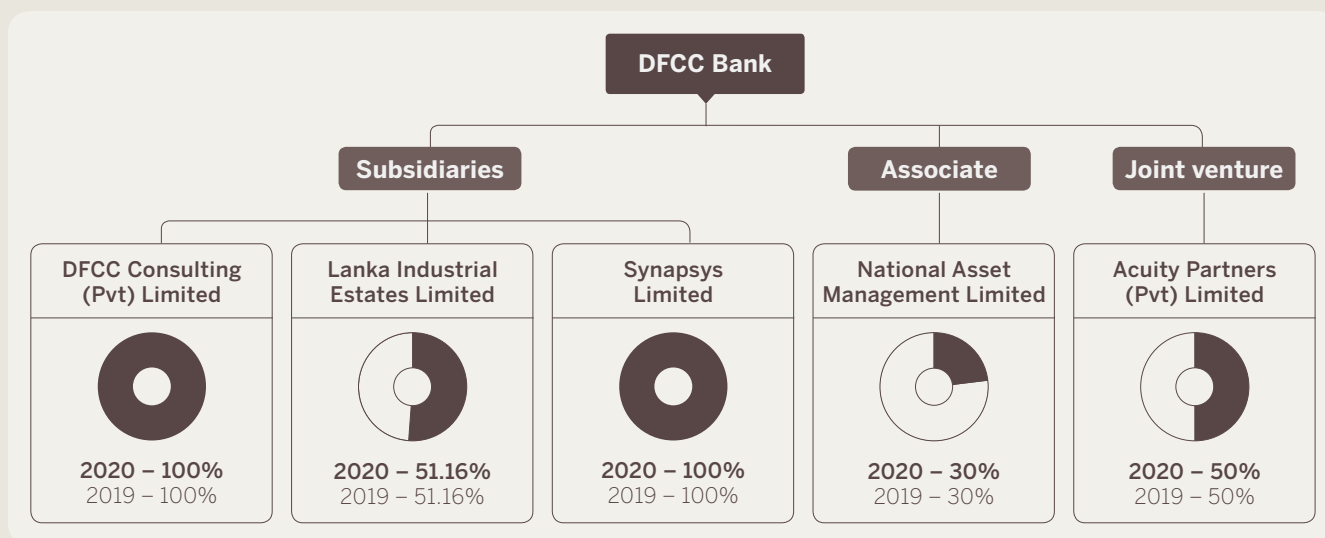
DFCC Bank PLC as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard – SLFRS 10 on “Consolidated Financial Statements” and the proportionate share of the profit or loss and net assets of its associates and joint ventures in terms of the Sri Lanka Accounting Standard – LKAS 28 on “Investments in Associates and Joint Ventures”. In addition to the consolidated financial statements, separate financial statements are also presented as per the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

The Bank’s financial statements comprise the amalgamation of the financial statements of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU).

1.3 Parent entity and ultimate parent entity

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group companies.

1.4 Principal business activities, nature of operations of the Group and ownership by the Bank in its subsidiaries, associate and joint venture.



Notes to the Financial Statements

A summary of principal activities of DFCC Bank PLC, its subsidiary companies, associate company and joint venture company is as follows:

Entity	Principal business activity
DFCC Bank PLC	Range of financial services such as accepting deposits, corporate credit and retail banking, personal financial services, project financing, investment banking, foreign currency operations, trade finance and dealing in Government Securities, and Treasury-related products.
Subsidiaries	
DFCC Consulting (Pvt) Limited	Technical, financial, and other professional consultancy services in Sri Lanka and abroad.
Lanka Industrial Estates Limited	Leasing of land and buildings to industrial enterprises.
Synapsys Limited	Information technology services and information technology enabled services.
Associate	
National Asset Management Limited	Management of Unit Trust and private portfolios.
Joint venture	
Acuity Partners (Pvt) Limited	Investment banking-related financial services.

There were no significant changes in the nature of the principal activities of the Group during the financial year under review.

1.5 Approval of financial statements

The financial statements for the year ended 31 December 2020 were authorised for issue by the Directors on 17 February 2021.

1.6 Responsibility for financial statements

The responsibility of the Board of Directors in relation to the financial statements is set out in the Statement of Directors' Responsibility report in the Annual Report.

2 Basis of accounting →

2.1 Statement of compliance

The consolidated financial statements of the Group and the separate financial statements of the Bank, which comprise the Statement of Financial Position, Income Statement, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange (CSE).

These financial statements, except for information on cash flows have been prepared following the accrual basis of accounting.

Details of the Group's significant accounting policies followed during the year are given on Note 5 on pages 167 to 173.

These financial statements include the following components:

- an Income statement and statement of profit or loss and other comprehensive income providing information on the financial performance of the Group and the Bank for the year under review; (Refer pages 154 and 155).
- a statement of financial position providing information on the financial position of the Group and the Bank as at the year end; (Refer page 156).
- a statement of changes in equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank; (Refer pages 158 and 159).
- a statement of cash flows providing information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and the needs of the entity to utilise those cash flows; (Refer pages 160 to 162).
- Notes to the financial statements comprising accounting policies and other explanatory information. (Refer pages 163 to 296)

The format used in the preparation and presentation of the financial statement and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka in the Circular No. 2 of 2019 on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks".

2.2 Basis of measurement

These financial statements have been prepared on the historical cost convention except for the following material items, which are measured on an alternative basis on each reporting date:

Financial instruments

Item	Basis of measurement	Note	Page
Financial assets measured at fair value through profit or loss	Fair value	30	237
Derivative financial assets and derivative financial liabilities	Fair value	29	233
Financial assets measured at fair value through other comprehensive income (FVOCI)	Fair value	34	246

Non-financial assets/liabilities

Item	Basis of measurement	Note	Page
Employee retirement benefits	Present value of the defined benefit pension obligation less the net total of the pension assets maintained in DFCC Bank Pension Fund, a trust separate from the Bank.	48	270
	Present value of the defined benefit gratuity obligation.	48	270

No adjustments have been made for inflationary factors affecting the financial statements.

2.3 Materiality and aggregation

Each item which is similar in nature is presented separately if material. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 1 on “Presentation of Financial Statements”.

2.4 Going concern

The Directors have made an assessment of the Group’s ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. The assessment took into consideration the existing and potential implications of COVID-19 pandemic on the business operations and performance of the Group and the measures adopted by the Government to mitigate the pandemic’s spread and support recovery

of the economy. The Board is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore, the financial statements continue to be prepared on the going concern basis.

2.5 Comparative information

Comparative information including quantitative, narrative, and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period’s financial statements and to enhance the inter-period comparability.

The presentation and classification of the financial statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

Notes to the Financial Statements

3 Functional and presentation currency →

These consolidated financial statements are presented in Sri Lankan Rupees (LKR), which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

There was no change in the Group's presentation and functional currency during the year under review.

4 Use of judgements and estimates →

In preparing these financial statements, Management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Group performance. The outbreak necessitated the government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

4.1 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the

amounts recognised in the financial statements are included in the following Notes:

Item	Note	Page
Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval models used to measure ECL.	17	213
Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI) on the principal amount outstanding.	5.3.2	169
Determination of control over investees.	36, 37	252, 253

4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities is included in the following Notes:

Item	Note	Page
Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information and key assumptions used in estimating recoverable cash flows.	17, 32	213, 239
Determination of the fair value of financial instruments with significant unobservable inputs.	9.3.1	201
Measurement of defined benefit obligations: key actuarial assumptions.	48.2.2	275
Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be utilised.	41	262
Impairment testing for Cash Generating Units (CGU) containing goodwill: key assumptions underlying recoverable amounts.	5.4	172

Item	Note	Page
Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.	57	283
Fair values of the assets held for sale: determination of fair value less costs to sell on the basis of significant unobservable inputs.	43	265

5 Significant accounting policies →

The significant accounting policies set out below have been applied consistently to all periods presented in the financial statements of the Group.

These accounting policies have been applied consistently by Group entities.

Set out below is an index of the significant accounting policies:

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R. Intangible assets and goodwill	40	260
S. Impairment of non-financial assets	5.4	172
T. Deposits, debt securities in issue and subordinated liabilities	45, 47, 51	266, 269, 278
U. Provisions	50	277
V. Financial guarantees and loan commitments	57	283
W. Employee retirement benefits	48	270
X. Share capital, other equity and reserves	52-55	279-281
Y. Earnings per share	23	226
Z. Segment reporting	60	293

5.1 Basis of consolidation

5.1.1 Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

From 1 January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Notes to the Financial Statements

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in Income Statement.

5.1.2 Subsidiaries

Details of the Bank's subsidiaries, how they are accounted for in the financial statements and their contingencies are set out in Note 35 on pages 251.

5.1.3 Non-controlling interests (NCI)

Details of non-controlling interests are given in Note 56 on page 282.

5.1.4 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

5.1.5 Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in an associate and a joint venture.

Details of the Bank's equity-accounted investees, how they are accounted in the financial statements and their contingencies are set out in Notes 36 and 37 on pages 252 to 253.

5.1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

5.1.7 Financial statements of subsidiaries, associate company, and joint venture company included in the consolidated financial statements

The financial statements of DFCC Consulting (Pvt) Limited, Acuity Partners (Pvt) Limited, Synapsys Limited and National Asset Management Limited included in the consolidation have financial years ending on 31 December.

Financial statements of Lanka Industrial Estates Limited included in the consolidation has financial year ending on 31 March.

Audited financial statements are used for consolidation of companies which have a similar financial year end, as the Bank and for other a special review is performed.

5.2 Foreign currency

5.2.1 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income (OCI):

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective

5.2.2 Foreign operations

The Bank does not have any foreign operations that is a subsidiary, associate, joint venture, or a branch. Therefore, there is no exchange differences recognised in other comprehensive income.

5.3 Financial assets and financial liabilities

5.3.1 Recognition and initial measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

5.3.2 Classification

5.3.2.1 Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

5.3.2.1.1 Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to Management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Bank's retail, small and medium enterprises and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise mortgages, overdrafts, unsecured personal lending, and credit card facilities. Sales of loans from these portfolios are very rare.

Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

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Certain other debt securities are held by the Group Central Treasury in separate portfolios to meet everyday liquidity needs. The Group's Central Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that these financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

5.3.2.1.2 Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

5.3.2.2 Financial liabilities

On initial recognition, the Group classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through profit or loss

5.3.2.2.1 Financial liabilities at amortised cost

Financial liabilities issued by the Group that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortised cost.

The EIR amortisation is included in "Interest expense" in the income statement. Gains and losses too are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

5.3.2.2.2 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes.

5.3.3 Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

5.3.4 Derecognition

5.3.4.1 Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying

amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

5.3.4.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

5.3.5 Modifications of financial assets and financial liabilities

5.3.5.1 Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial assets are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition

of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial assets.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

5.3.5.2 Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

5.3.6 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the SLFRS Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the significant accounting policies of the Bank/Group.

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5.3.7 Fair value measurement

“Fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group 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.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

5.3.8 Impairment

Details of impairment is given in Note 17 on page 213.

5.3.9 Designation at fair value through profit or loss

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL, if doing so eliminated or significantly reduces an accounting mismatch that would otherwise arise.

The Group has not designated any financial asset upon initial recognition at fair value through profit or loss as at the reporting date.

5.4 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group’s corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6 Changes in significant accounting policies →

The Group has initially adopted Definition of a Business (Amendments to SLFRS 3) from 1 January 2020. A number of other new standards are also effective from 1 January 2020 that do not have a material effect on the Group's financial statements.

A. Definition of a business

The Group applied Definition of a Business (Amendments to SLFRS 3) to business combinations whose dates of acquisition are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets. The amendments do not have a material effect on the Group's financial statements because the Group has not acquired any subsidiaries during the year.

However, the Group has not made any acquisitions on or after 1 January 2020.

7 Standards issued but not yet adopted →

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements/Bank's separate financial statements.

Accounting standard	Summary of requirements	Possible impact on financial statements
Amendments to references to conceptual framework in SLFRS Standards	<p>The revised framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures.</p> <p>The new conceptual framework is effective for annual periods beginning on or after 1 January 2020.</p>	Group is not expecting a significant impact arising from the new conceptual framework.
Interest rate benchmark reforms.(Amendments to SLFRS 9, LKAS 39, and SLFRS 7)	<p>Interest rate benchmark reform is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Historically IBORs such as USD LIBOR have been determined by panels of banks with a heavy reliance on expert judgement. The objective of the reforms is to replace IBORs with alternative nearly risk-free rates (RFRs) that are based on actual market transactions.</p> <p>The Financial Conduct Authority has stated that it will no longer compel panel banks to submit values for LIBORs after 31 December 2021 and it is expected that these benchmarks will cease to exist thereafter. Consequently, financial contracts referencing these benchmarks with a maturity beyond 2021 may need to be amended to reference the alternative RFR in the applicable currency. There remain many uncertainties associated with the IBOR transition, including the prospective.</p>	Group is in the process of assessing the possible impact.
Other new accounting pronouncements	<p>The following new and amended standards are also not expected to have a significant impact on the Group's consolidated financial statements;</p> <ul style="list-style-type: none"> – Sri Lanka Accounting Standard – SLFRS 17 "Insurance Contracts" effective from 1 January 2023 – Onerous Contracts – Cost of Fulfilling a Contract (Amendments to LKAS 37). – COVID-19-Related Rent Concessions (Amendment to SLFRS 16). – Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16). 	

Notes to the Financial Statements

8 Financial risk review

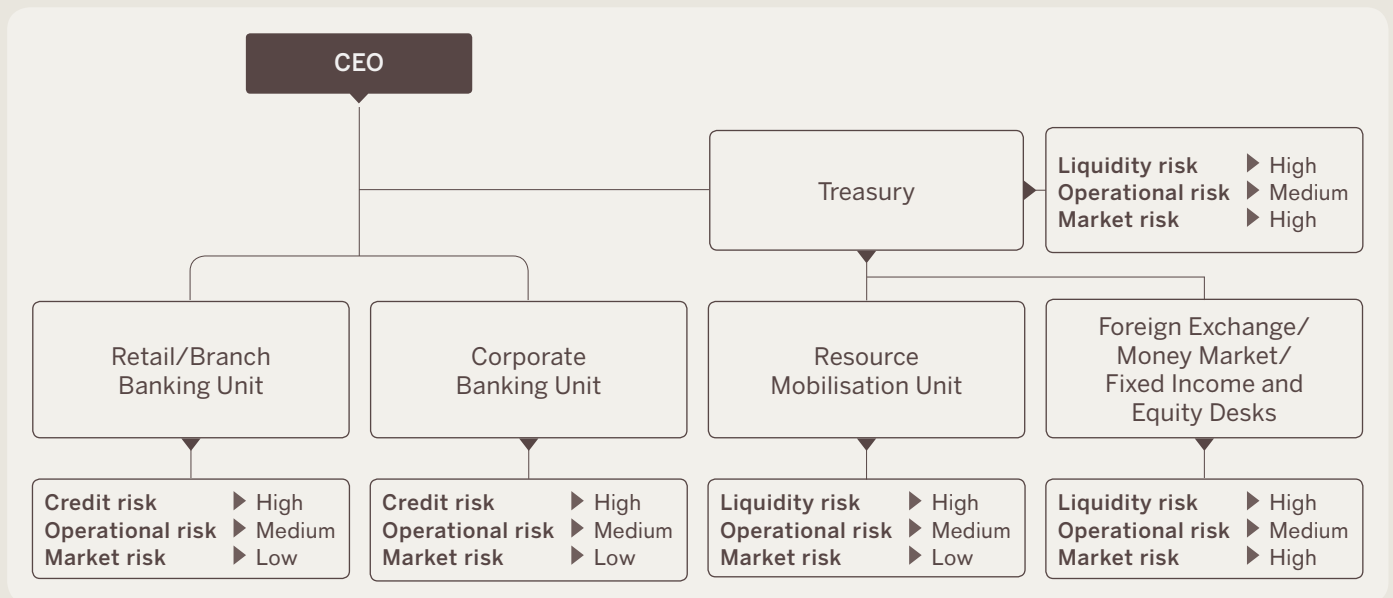
This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

8.1 Introduction and overview

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

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risks

The following chart provides a link between the Bank's main business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Bank as a whole and is measured based on allocation of the regulatory capital within the Bank.



This note presents information about the Bank's exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risk.

Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Board Integrated Risk Management Committee (BIRMC) provides the Board, the assurance that risk management strategies, policies and processes are in place to manage events/outcomes that have the potential to impact significantly on earnings, performance, reputation and capital.

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

Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank Audit Committee.

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8.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bank's loans and advances to customers and other banks and investment in debt securities.

8.2.1 Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of an entity to honour its

obligations to deliver cash, securities or other assets as contractually agreed.

8.2.2 Management of credit risk

The Board of Directors, BIRMC and the Credit Committee are responsible for the oversight of credit risk. Management of credit risk includes the following:

1. Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Authority for establishing the authorisation structure for the approval and renewal of credit facilities is vested with the Board of Directors. Authorisation limits are allocated to business unit Heads. Approval by Branch Managers, Regional Managers, Head of Branch Banking, Head of Corporate Banking, Credit Committee or the Board of Directors would be required based on loan quantum and risk levels as appropriate.
3. Reviewing and assessing credit risk: Bank credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
4. Limiting concentrations of exposure to counterparties, industries (for loans and advances, financial guarantees and similar exposures), credit ratings and countries.
5. Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:
 - initial approval, regular validation and back-testing of the models used;
 - determining and monitoring significant increase in credit risk; and
 - incorporation of forward-looking information.
6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk, and product types. Regular reports on the credit quality of local portfolios are provided to bank credit, which may require appropriate corrective action to be taken. These include reports containing estimates of Expected Credit Loss (ECL) allowances.
7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to follow Bank credit policies and procedures, and each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

Notes to the Financial Statements

8.2.3 Credit quality analysis

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

Loans to and receivables from customers at amortised cost – gross carrying amount

As at 31 December In LKR '000	2020			
	Stage 1	Stage 2	Stage 3	Total
Current	183,303,084	8,446,879	2,200,563	193,950,526
Overdue < 30 days	65,112,665	9,292,992	2,618,816	77,024,473
Overdue > 30 days	2,302,688	24,412,315	19,542,611	46,257,614
Total	250,718,437	42,152,186	24,361,990	317,232,613

As at 31 December In LKR '000	2019			
	Stage 1	Stage 2	Stage 3	Total
Current	182,849,726	5,014,881	5,427,262	193,291,869
Overdue < 30 days	34,802,427	3,459,297	1,043,267	39,304,991
Overdue > 30 days	6,368,696	28,894,745	17,364,492	52,627,933
Total	224,020,849	37,368,923	23,835,021	285,224,793

8.2.3.1 Gross carrying amount reports under Stage 2 above for the year 2020, include facilities amounting to LKR 5.4 Bn granted to Government Institutions, and are fully-guaranteed by Treasury. Accordingly no provision has been made in respect of these facilities. These facilities were classified under Stage 3 in 2019.

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Bank are generally fully collateralised by cash. For further discussion of collateral and other credit enhancements:

As at 31 December 2020 In LKR '000	Derivative type											
	Forward		SWAP		Spot		Cross currency SWAP		Interest rate SWAP		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Derivative financial assets (Note 1)	8,874,370	30,895	39,541,236	276,665	81,690	27	11,852,637	527,877	-	-	60,349,933	835,464
Derivative financial liabilities (Note 2)	8,881,730	(28,002)	39,512,159	(239,805)	81,739	(76)	-	-	-	-	48,475,628	(267,883)
Note 1 Derivative financial assets by counterparty type												
With banks	6,128,972	22,862	39,541,236	276,665	81,690	27	11,852,637	527,877	-	-	57,604,535	827,431
With other customers	2,745,398	8,033	-	-	-	-	-	-	-	-	2,745,398	8,033
Total	8,874,370	30,895	39,541,236	276,665	81,690	27	11,852,637	527,877	-	-	60,349,933	835,464
Note 2 Derivative financial liabilities by counterparty type												
With banks	6,125,797	(17,276)	39,512,159	(239,805)	81,739	(76)	-	-	-	-	45,719,695	(257,157)
With other customers	2,755,933	(10,726)	-	-	-	-	-	-	-	-	2,755,933	(10,726)
Total	8,881,730	(28,002)	39,512,159	(239,805)	81,739	(76)	-	-	-	-	48,475,628	(267,883)

Notes to the Financial Statements

As at 31 December 2019	Derivative Type											
	Forward		SWAP		Spot		Cross currency SWAP		Interest rate SWAP		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
In LKR'000												
Derivative financial assets (Note 1)	1,135,594	8,624	48,887,233	112,011	141,332	143	10,453,667	510,660	-	-	60,617,826	631,438
Derivative financial liabilities (Note 2)	1,128,050	(2,448)	49,730,379	(516,127)	141,346	(156)	-	-	-	-	50,999,775	(518,731)
Note1												
Derivative financial assets by counterparty type												
With banks	749,746	3,684	48,887,233	112,011	141,332	143	10,453,667	510,660	-	-	60,231,978	626,498
With other customers	385,848	4,940	-	-	-	-	-	-	-	-	385,848	4,940
Total	1,135,594	8,624	48,887,233	112,011	141,332	143	10,453,667	510,660	-	-	60,617,826	631,438
Note2												
Derivative financial liabilities by counterparty type												
With banks	748,576	(2,448)	49,730,379	(516,127)	141,346	(156)	-	-	-	-	50,620,301	(518,731)
With other customers	379,474	-	-	-	-	-	-	-	-	-	379,474	-
Total	1,128,050	(2,448)	49,730,379	(516,127)	141,346	(156)	-	-	-	-	50,999,775	(518,731)

8.2.4 Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure:

As at 31 December	2020		2019	
	Gross loan balance LKR '000	Security value LKR '000	Gross loan balance LKR '000	Security value LKR '000
Stage 1				
Cash collateral	13,448,486	21,939,627	13,138,299	19,652,804
Property, plant and machinery	88,492,471	234,118,285	78,982,483	198,003,781
Treasury guarantee	4,184,616	8,019,987	3,614,059	7,328,863
Others	85,911,585	12,780,184	75,268,404	8,615,689
Unsecured	39,410,513	-	34,397,223	-
Total	231,447,671	276,858,083	205,400,468	233,601,137

Notes to the Financial Statements

As at 31 December	2020		2019	
	Gross loan balance LKR '000	Security value LKR '000	Gross loan balance LKR '000	Security value LKR '000
Stage 2				
Cash collateral	1,186,142	1,453,731	1,360,633	1,702,338
Property, plant and machinery	16,774,823	36,954,269	21,482,134	53,779,650
Treasury guarantee (Note 8.2.3.1)	5,194,358	6,043,468	–	–
Others	11,042,254	43,659	10,216,504	1,328,826
Unsecured	3,489,676	–	2,087,073	–
Total	37,687,253	44,495,127	35,146,344	56,810,814
Stage 3				
Cash collateral	181,950	235,006	76,026	89,403
Property, plant and machinery	10,015,522	14,402,036	7,679,725	17,449,496
Treasury guarantee (Note 8.2.3.1)	–	–	4,972,857	6,026,242
Others	6,670,291	21,594	4,313,852	22,272
Unsecured	6,102,588	–	5,461,571	–
Total	22,970,351	14,658,636	22,504,031	23,587,413

The above analysis does not include balances relating to lease rentals receivables.

8.2.4.1 Derivatives, reverse sale-and-repurchase agreements and securities borrowing

The Bank mitigates the credit risk of derivatives, reverse sale-and-repurchase agreements and securities lending by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

DFCC requires counterparties to sign an ISDA master agreement (International Swaps and Derivative Association) in order to enter into swaps and other derivative transactions. The agreement outlines the terms and conditions to be applied to the derivative transactions agreed by DFCC and other parties. Any Dispute of the transaction will be handled according to the agreement terms.

The Bank's sale-and-repurchase, and reverse sale-and-repurchase, transactions and securities borrowing and lending are covered by master agreements. A master agreement has to be signed by both parties to enter such transactions. All terms and conditions are stipulated in the master agreement.

8.2.4.2 Loan to value ratio of residential mortgage lending

The following tables stratify credit exposures by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral is based on valuations made by independent professional valuers.

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
LTV ratio		
Stage 1		
Less than 50%	717,329	2,392,919
51%-70%	1,233,058	3,060,380
71%-90%	2,918,917	1,214,137
More than 90%	4,869,463	1,552,755
Total	9,738,767	8,220,191
Stage 2		
Less than 50%	118,112	690,096
51%-70%	199,469	1,206,097
71%-90%	573,666	503,044
More than 90%	836,927	536,146
Total	1,728,174	2,935,383
Stage 3		
Less than 50%	69,099	201,965
51%-70%	155,804	342,236
71%-90%	388,553	185,642
More than 90%	410,596	131,916
Total	1,024,052	861,759
Carrying amount – amortised cost	12,490,993	12,017,333

8.2.4.3 Assets obtained by taking possession of collateral

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations.

8.2.5 Amounts arising from ECL

8.2.5.1 Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in our accounting policy; see Note 17.

Notes to the Financial Statements

Financial assets at amortised cost – Loans to and receivables from other customers – ECL

	2020				2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Balance at beginning	901,871	1,563,877	9,940,734	12,406,482	786,161	2,355,958	8,423,457	11,565,576
Transfer to Stage 1	662,248	(563,585)	(98,663)	-	767,186	(706,463)	(60,723)	-
Transfer to Stage 2	(84,923)	172,478	(87,555)	-	(60,275)	109,101	(48,826)	-
Transfer to Stage 3	(27,796)	(173,925)	201,721	-	(17,410)	(210,075)	227,485	-
Net remeasurement of loss allowance	(577,698)	(161,992)	1,788,137	1,048,447	(1,050,167)	(422,215)	1,727,227	254,845
New financial assets originated or purchased	432,750	232,572	1,227,042	1,892,364	476,987	439,272	419,288	1,335,547
Write-off	(712)	(3,855)	(27,398)	(31,965)	(611)	(1,701)	(741,068)	(743,380)
Foreign exchange and other movement	-	-	7,948	7,948	-	-	(6,106)	(6,106)
Balance as at 31 December	1,305,740	1,065,570	12,951,966	15,323,276	901,871	1,563,877	9,940,734	12,406,482

Financial assets at amortised cost-debt and other instruments – ECL

	2020		2019	
	Stage 1 LKR '000	Total LKR '000	Stage 1 LKR '000	Total LKR '000
Balance at beginning	82,571	82,571	45,414	45,414
Transferred from FVOCI during the year	67,231	67,231	-	-
Net remeasurement of loss allowance	121,713	121,713	37,157	37,157
Balance as at 31 December	271,515	271,515	82,571	82,571

Loan Commitments and financial guarantee contracts

	2020			2019		
	Stage 1 LKR '000	Stage 2 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Total LKR '000
Balance at beginning	164,144	16,487	180,631	162,686	34,895	197,581
Net remeasurement of loss allowance	179,454	(3,195)	176,259	1,458	(18,408)	(16,950)
Balance as at 31 December	343,598	13,292	356,890	164,144	16,487	180,631

8.2.5.2 Sensitivity of ECL to future economic conditions

The ECL are sensitive to judgements and assumptions made regarding formulation of forward looking scenarios and how such scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognised on material classes of its assets.

Sensitivity of factors used to determine impairment provisions

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Bank's allowance for expected credit

losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below shows the sensitivity of the impairment provision of the Bank as at 31 December 2020 to a reasonably possible change in PDs, LGDs, and forward looking information.

	Sensitivity effect on Statement of Financial Position				Sensitivity effect on Income Statement
	Increase/(Decrease) in impairment provision				
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	
					LKR '000
PD 1% increase across all age buckets	997,988	225,291	–	1,223,279	(1,223,279)
PD 1% decrease across all age buckets*	(839,773)	(225,284)	–	(1,065,057)	1,065,057
LGD 5% increase	173,900	175,522	368,595	718,017	(718,017)
LGD 5% decrease*	(173,877)	(175,468)	(368,583)	(717,928)	717,928
Probability weighted economic scenarios					
– Worst case 4% decrease and base case 4% increase	(10,418)	(8,223)	–	(18,641)	18,641
– Worst case 4% increase and base case 4% decrease	10,418	8,214	–	18,632	(18,632)

* The PD/LGD decrease is capped to 0%, if applicable.

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8.2.6 Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments, financial guarantees and investment securities is shown below:

In LKR '000	Loans to and receivable from banks		Loans to and receivable from customers		Investment in debt securities		Loan commitments and financial guarantees issued	
	2020	2019	2020	2019	2020	2019	2020	2019
As at 31 December								
Gross carrying amount	4,152,717	-	317,232,613	285,224,793	108,079,830	93,932,452	-	-
Amount committed/guaranteed	-	-	-	-	-	-	124,612,896	108,145,071
Concentration by sector								
Agriculture, forestry, and fishing	-	-	34,483,557	28,282,969	-	-	9,554,167	11,139,531
Manufacturing	-	-	55,769,741	54,535,325	-	-	29,282,013	24,385,449
Tourism	-	-	15,990,359	13,393,587	-	-	2,612,852	7,977,653
Transportation and storage	-	-	9,108,654	9,434,389	-	-	643,732	1,105,107
Construction	-	-	34,175,044	32,559,866	-	252,953	6,700,539	7,074,504
Infrastructure development	-	-	34,465,896	30,024,078	-	-	21,722,145	14,869,134
Wholesale and retail trade	-	-	41,871,503	44,195,272	-	-	31,324,334	24,342,484
Information technology and communication services	-	-	1,712,933	1,531,401	-	-	1,294,637	660,586
Financial services	4,152,717	-	13,286,037	14,856,831	661,941	2,839,425	4,793,138	2,360,843
Professional, scientific, and technical activities	-	-	3,203,777	1,709,325	-	-	318,401	383,807
Arts, entertainment, and recreation	-	-	756,676	788,364	-	-	36,875	50,798
Education	-	-	3,751,677	1,471,284	-	-	1,631,020	283,802
Health care, social services, and support services	-	-	6,077,955	4,213,504	-	-	1,089,879	1,181,414
Consumption	-	-	50,166,517	36,783,616	-	-	9,093,307	7,229,734
Lending to ministry of finance	-	-	33,923	164,257	-	-	-	-
Lending to overseas entities	-	-	12,378,364	11,280,725	-	-	4,515,858	5,100,225
Government	-	-	-	-	107,417,889	90,840,074	-	-
Other	-	-	-	-	-	-	-	-
Total	4,152,717	-	317,232,613	285,224,793	108,079,830	93,932,452	124,612,897	108,145,071

8.2.7 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

8.3 Liquidity risk

“Liquidity risk” is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Bank’s operations and investments.

8.3.1 Management of liquidity risk

The Bank’s Board of Directors sets the Bank’s strategy for managing liquidity risk and oversight of the implementation is administered by Assets and Liability Management Committee (ALCO). ALCO approves the Bank’s liquidity policies and procedures. Treasury manages the Bank’s liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted to ALCO on a monthly basis or ad hoc when predefined thresholds are breached.

The Bank’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank’s reputation. The key elements of the Bank’s liquidity strategy are as follows:

- Monitoring maturity mismatches, behavioural characteristics of the Bank’s financial assets and financial liabilities, and the extent to which the Group’s assets are encumbered and so not available as potential collateral for obtaining funding.
- Monitoring the Bank’s liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) and Liquidity Coverage Ratios using a stock approach.
- Effecting threshold limits relevant for liquidity management as part of the overall risk limits system of the Bank.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.

8.3.2 Exposure to liquidity risk – Regulatory liquidity (Bank)

As at 31 December	2020	2019
Statutory liquid assets (LKR '000)	137,237,163	90,664,914
Statutory liquid assets ratio (minimum requirement 20%)		
Domestic banking unit (%)	33.78	23.55
Off-shore banking unit (%)	35.45	53.07
Liquidity coverage ratio (minimum requirement 90% in 2020 and 100% in 2019)		
All currencies (%)	204.44	140.53
Rupee only (%)	288.27	234.22

Details of the consolidated liquid assets ratio during the reporting period were as follows:

As at 31 December	2020	2019
Average for the period	31.98	25.70
Maximum for the period	34.99	26.91
Minimum for the period	28.27	24.15

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8.3.3 Maturity analysis for financial liabilities and financial assets

The following tables set out the remaining contractual maturities of the Bank's financial liabilities and financial assets.

As at 31 December 2020 BANK	Carrying amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type							
Non-derivative liabilities							
Due to banks	14,909,937	3,631,087	3,765,692	7,513,158	-	-	14,909,937
Financial liabilities at amortised cost – Due to depositors	310,026,892	98,852,578	105,106,743	28,970,585	16,457,256	60,639,730	310,026,892
Financial liabilities at amortised cost – Due to other borrowers	46,847,076	12,641,905	10,124,287	12,393,268	3,553,834	8,133,782	46,847,076
Debt securities in issue	16,291,279	1,025,771	305,890	-	8,764,378	6,195,240	16,291,279
Other liabilities	4,783,877	2,298,859	724,698	383,163	421,465	955,692	4,783,877
Subordinated term debt	19,357,497	617,851	1,173,506	8,956,610	8,404,530	205,000	19,357,497
	412,216,558	119,068,051	121,200,816	58,216,784	37,601,463	76,129,444	412,216,558
Derivative liabilities							
Risk management:	267,883	267,883	-	-	-	-	267,883
	267,883	267,883	-	-	-	-	267,883
Financial assets by type							
Non-derivative assets							
Cash and cash equivalents	7,724,364	7,724,364	-	-	-	-	7,724,364
Balances with Central Bank	4,901,753	4,901,753	-	-	-	-	4,901,753
Placements with banks	15,414,287	15,414,287	-	-	-	-	15,414,287
Financial assets measured at fair value through profit or loss	609,717	564,837	-	-	-	44,880	609,717
Financial assets at amortised cost – Loans to and receivables from banks	4,152,717	4,152,717	-	-	-	-	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	301,909,337	53,502,826	35,148,436	58,850,180	57,608,042	96,799,853	301,909,337
Financial assets at amortised cost – Debt and other instruments	31,604,175	5,374,610	13,359,011	10,929,576	1,940,978	-	31,604,175
Financial assets measured at fair value through other comprehensive income	88,718,002	15,805,674	25,872,632	17,342,423	7,691,826	22,005,447	88,718,002
Other assets	1,999,405	1,921,049	13,550	11,747	31,747	21,312	1,999,405
	457,033,757	109,362,117	74,393,629	87,133,926	67,272,593	118,871,492	457,033,757
Derivative assets							
Risk management:	835,464	835,464	-	-	-	-	835,464
	835,464	835,464	-	-	-	-	835,464

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As at 31 December 2019 BANK	Carrying Amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type							
Non-derivative liabilities							
Due to banks	24,594,828	9,464,866	5,791,329	9,338,633	–	–	24,594,828
Financial liabilities at amortised cost – Due to depositors	247,786,974	86,203,676	85,695,022	17,085,344	12,864,437	45,938,495	247,786,974
Financial liabilities at amortised cost – Due to other borrowers	47,307,556	9,107,966	9,149,713	14,000,752	6,154,080	8,895,045	47,307,556
Debt securities in issue	14,148,198	1,028,348	3,147,549	–	3,783,024	6,189,277	14,148,198
Other liabilities	3,786,445	2,388,520	798,747	36,775	118,536	443,867	3,786,445
Subordinated term debt	16,859,914	657,461	2,227,817	940,482	8,948,215	4,085,939	16,859,914
	354,483,915	108,850,837	106,810,177	41,401,986	31,868,292	65,552,623	354,483,915
Derivative liabilities							
Risk management:	518,731	518,731	–	–	–	–	518,731
	518,731	518,731	–	–	–	–	518,731
Financial assets by type							
Non-derivative assets							
Cash and cash equivalents	5,450,209	5,450,209	–	–	–	–	5,450,209
Balances with Central Bank	8,666,547	8,666,547	–	–	–	–	8,666,547
Placements with banks	165,030	165,030	–	–	–	–	165,030
Financial assets measured at fair value through profit or loss	5,307,066	251,593	–	–	–	5,055,473	5,307,066
Financial assets at amortised cost – Loans to and receivables from banks	–	–	–	–	–	–	–
Financial assets at amortised cost – Loans to and receivables from other customers	272,818,311	40,234,030	38,017,279	52,744,363	54,181,538	87,641,101	272,818,311
Financial assets at amortised cost – Debt and other instruments	30,147,032	4,966,191	2,630,013	18,639,478	3,911,350	–	30,147,032
Financial assets measured at fair value through other comprehensive income	72,716,407	9,450,109	3,187,401	30,008,205	15,649,171	14,421,521	72,716,407
Other assets	2,148,567	1,425,425	278,065	130,296	21,491	293,290	2,148,567
	397,419,169	70,609,134	44,112,758	101,522,342	73,763,550	107,411,385	397,419,169
Derivative assets							
Risk management:	631,438	631,438	–	–	–	–	631,438
	631,438	631,438	–	–	–	–	631,438

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The following tables set out the remaining contractual maturities of the Group's financial liabilities and financial assets.

As at 31 December 2020 GROUP	Carrying Amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type							
Non-derivative liabilities							
Due to banks	14,909,937	3,631,087	3,765,692	7,513,158	–	–	14,909,937
Financial liabilities at amortised cost – Due to depositors	309,566,423	98,392,109	105,106,743	28,970,585	16,457,256	60,639,730	309,566,423
Financial liabilities at amortised cost – Due to other borrowers	46,847,076	12,641,905	10,124,287	12,393,268	3,553,834	8,133,782	46,847,076
Debt securities in issue	16,291,279	1,025,771	305,890	–	8,764,378	6,195,240	16,291,279
Other liabilities	4,900,958	2,298,860	724,698	500,243	421,465	955,692	4,900,958
Subordinated term debt	19,357,497	617,851	1,173,506	8,956,610	8,404,530	205,000	19,357,497
	411,873,170	118,607,583	121,200,816	58,333,864	37,601,463	76,129,444	411,873,170
Derivative liabilities							
Risk management:	267,883	267,883	–	–	–	–	267,883
	267,883	267,883	–	–	–	–	267,883
Financial assets by type							
Non-derivative assets							
Cash and cash equivalents	7,728,969	7,728,969	–	–	–	–	7,728,969
Balances with Central Bank	4,901,753	4,901,753	–	–	–	–	4,901,753
Placements with banks	15,431,962	15,431,962	–	–	–	–	15,431,962
Financial assets measured at fair value through profit or loss	609,717	564,837	–	–	–	44,880	609,717
Financial assets at amortised cost – Loans to and receivables from banks	4,152,717	4,152,717	–	–	–	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	301,909,337	53,502,826	35,148,436	58,850,180	57,608,042	96,799,853	301,909,337
Financial assets at amortised cost – Debt and other instruments	31,604,175	5,374,610	13,359,011	10,929,576	1,940,978	–	31,604,175
Financial assets measured at fair value through other comprehensive income	88,718,002	15,805,674	25,872,632	17,342,423	7,691,826	22,005,447	88,718,002
Other assets	2,066,621	1,988,265	13,550	11,747	31,747	21,312	2,066,621
	457,123,253	109,451,613	74,393,629	87,133,926	67,272,593	118,871,492	457,123,253
Derivative assets							
Risk management:	835,464	835,464	–	–	–	–	835,464
	835,464	835,464	–	–	–	–	835,464

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As at 31 December 2019 GROUP	Carrying Amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type							
Non-derivative liabilities							
Due to banks	24,594,828	9,464,866	5,791,329	9,338,633	–	–	24,594,828
Financial liabilities at amortised cost – Due to depositors	247,457,696	86,062,548	85,605,622	16,986,594	12,864,437	45,938,495	247,457,696
Financial liabilities at amortised cost – Due to other borrowers	47,307,556	9,107,967	9,149,713	14,000,752	6,154,080	8,895,045	47,307,556
Debt securities in issue	14,148,198	1,028,348	3,147,549	–	3,783,024	6,189,277	14,148,198
Other liabilities	3,907,977	2,510,052	798,747	36,775	118,536	443,867	3,907,977
Subordinated term debt	16,859,914	657,460	2,227,817	940,482	8,948,215	4,085,939	16,859,914
	354,276,169	108,831,241	106,720,777	41,303,236	31,868,292	65,552,623	354,276,169
Derivative liabilities							
Risk management:	518,731	518,731	–	–	–	–	518,731
	518,731	518,731	–	–	–	–	518,731
Financial assets by type							
Non-derivative assets							
Cash and cash equivalents	5,459,359	5,459,359	–	–	–	–	5,459,359
Balances with Central Bank	8,666,547	8,666,547	–	–	–	–	8,666,547
Placements with banks	200,441	165,030	35,411	–	–	–	200,441
Financial assets measured at fair value through profit or loss	5,307,066	251,593	–	–	–	5,055,473	5,307,066
Financial assets at amortised cost – Loans to and receivables from banks	–	–	–	–	–	–	–
Financial assets at amortised cost – Loans to and receivables from other customers	272,818,311	40,234,030	38,017,279	52,744,363	54,181,538	87,641,101	272,818,311
Financial assets at amortised cost – Debt and other instruments	30,147,032	4,966,191	2,630,013	18,639,478	3,911,350	–	30,147,032
Financial assets measured at fair value through other comprehensive income	72,716,407	9,450,109	3,187,401	30,008,205	15,649,171	14,421,521	72,716,407
Other assets	2,238,053	1,514,911	278,065	130,296	21,491	293,290	2,238,053
	397,553,216	70,707,770	44,148,169	101,522,342	73,763,550	107,411,385	397,553,216
Derivative assets							
Risk management:	631,438	631,438	–	–	–	–	631,438
	631,438	631,438	–	–	–	–	631,438

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The amounts in the table above have been compiled as follows:

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments.
Issued financial guarantee contracts, and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
Derivative financial liabilities and financial assets held for risk management purposes	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.
Trading derivative liabilities and assets forming part of the Group's proprietary trading operations that are expected to be closed out before contractual maturity.	Fair values at the date of the statement of financial position. This is because contractual maturities do not reflect the liquidity risk exposure arising from these positions. These fair values are disclosed in the "up to three months" column.
Trading derivative liabilities and assets that are entered into by the Bank with its customers	Contractual undiscounted cash flows. This is because these instruments are not usually closed out before contractual maturity and so the Group believes that contractual maturities are essential for understanding the timing of cash flows associated with these derivative positions.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- unrecognised loan commitments are not all expected to be drawn down immediately.

8.3.4 Liquidity reserves

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, and debt securities issued by sovereigns, which can be readily sold to meet liquidity requirements. In addition, the Bank maintains agreed lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks (these amounts are referred to as the "Bank's liquidity reserves").

The following table sets out the components of the Bank's liquidity reserves

As at 31 December	2020 Carrying amount LKR '000	2020 Fair value LKR '000	2019 Carrying amount LKR '000	2019 Fair value LKR '000
Balances with Central Bank	4,901,753	4,901,753	8,666,547	8,666,547
Cash and cash equivalents	7,724,364	7,724,364	5,450,209	5,450,209
Placements with banks	15,414,287	15,414,287	165,030	165,030
Unencumbered debt securities issued by sovereigns	98,472,348	98,472,348	80,357,323	80,357,323
Total liquidity reserves	126,512,752	126,512,752	94,639,109	94,639,109

8.3.5 Financial assets available to support future funding

The following table sets out the availability of the bank's financial assets to support future funding.

	Note	Encumbered		Unencumbered		Total LKR '000
		Pledged as collateral LKR '000	Other* LKR '000	Available as collateral LKR '000	Other** LKR '000	
31 December 2020						
Cash and cash equivalents	26	–	–	7,724,364	–	7,724,364
Balances with Central Bank	27	–	4,901,753	–	–	4,901,753
Placements with banks	28	–	–	15,414,287	–	15,414,287
Derivatives financial assets	29	–	–	835,464	–	835,464
Financial assets measured at fair value through profit or loss	30	–	–	609,717	–	609,717
Financial assets at amortised cost – Loans to and advances to banks	31	–	–	4,152,717	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from customers	32	–	–	301,909,337	–	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	308,951	–	31,295,224	–	31,604,175
Financial assets measured at fair value through other comprehensive income	34	8,674,356	–	80,043,646	–	88,718,002
Other assets	42	–	–	–	1,999,405	1,999,405
Non-financial assets		–	–	–	7,208,066	7,208,066
Total assets		8,983,307	4,901,753	441,984,756	9,207,471	465,077,287
31 December 2019						
Cash and cash equivalents	26	–	–	5,450,209	–	5,450,209
Balances with Central Bank	27	–	8,666,547	–	–	8,666,547
Placements with banks	28	–	–	165,030	–	165,030
Derivatives financial assets	29	–	–	631,438	–	631,438
Financial assets measured at fair value through profit or loss	30	–	–	5,307,066	–	5,307,066
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	–	–	–
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	272,818,311	–	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	43,883	–	30,103,149	–	30,147,032
Financial assets measured at fair value through other comprehensive income	34	16,625,375	–	56,091,032	–	72,716,407
Other assets	42	–	–	–	2,148,567	2,148,567
Non-financial assets		–	–	–	6,846,673	6,846,673
Total assets		16,669,258	8,666,547	370,566,235	8,995,240	404,897,280

* Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding, for legal or other reasons.

** Represents assets that are not restricted for use as collateral, but that the Group would not consider readily available to secure funding in the normal course of business.

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8.4 Market risk

“Market risk” is the possibility of losses arising from changes in market variables such as interest rates, equity prices, foreign exchange rates, and credit spreads. The objective of the Bank’s market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank’s solvency while optimising the return on risk.

8.4.1 Management of market risk

The Bank separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios mainly include positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis and non-trading portfolios from positions arising from financial investments measured at Fair Value through Other

Comprehensive Income (FVOCI) and financial investments at amortised cost and from derivatives held for risk management purposes.

Overall authority for market risk management is vested with the Board of Directors through the Board Integrated Risk Management Committee (BIRMC). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits of the Bank.

The Bank employs a range of tools to monitor and limit market risk exposures. These are discussed below, separately for trading and non-trading portfolios.

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

In LKR '000	Note	Carrying amount LKR '000	Market risk measure	
			Trading portfolio LKR '000	Non-trading portfolio LKR '000
31 December 2020				
Assets subject to market risk				
Cash and cash equivalents	26	2,895,117	–	2,895,117
Placements with banks	28	15,414,287	–	15,414,287
Derivative financial assets	29	835,464	835,464	–
Financial assets measured at fair value through profit or loss	30	609,717	609,717	–
Financial assets at amortised cost – Loans to and receivables from banks	31	4,152,717	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	301,909,337	–	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	31,604,175	–	31,604,175
Financial assets measured at fair value through other comprehensive income	34	88,718,002	–	88,718,002
Liabilities subject to market risk				
Due to banks	44	14,909,937	–	14,909,937
Derivative financial liabilities	29	267,883	267,883	–
Financial liabilities at amortised cost – Due to depositors	45	310,026,892	–	310,026,892
Financial liabilities at amortised cost – Due to other borrowers	46	46,847,076	–	46,847,076
Debt securities in issue	47	16,291,279	–	16,291,279
Subordinated term debt	51	19,357,497	–	19,357,497

In LKR '000	Note	Carrying amount LKR '000	Market risk measure	
			Trading portfolio LKR '000	Non-trading portfolio LKR '000
31 December 2019				
Assets subject to market risk				
Cash and cash equivalents	26	926,842	–	926,842
Placements with banks	28	165,030	–	165,030
Derivative financial assets	29	631,438	631,438	–
Financial assets measured at fair value through profit or loss	30	5,307,066	5,307,066	–
Financial assets at amortised cost – Loans to and advances to banks	31	–	–	–
Financial assets at amortised cost – Loans to and receivables to customers	32	272,818,311	–	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	30,147,032	–	30,147,032
Financial assets measured at fair value through other comprehensive income	34	72,716,407	–	72,716,407
Liabilities subject to market risk				
Due to banks	44	24,594,828	–	24,594,828
Derivative financial liabilities	29	518,731	518,731	–
Financial liabilities at amortised cost – Due to depositors	45	247,786,974	–	247,786,974
Financial liabilities at amortised cost – Due to other borrowers	46	47,307,556	–	47,307,556
Debt securities in issue	47	14,148,198	–	14,148,198
Subordinated term debt	51	16,859,914	–	16,859,914

8.4.2 Exposure to market risks – Trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is VaR. The VaR of a trading portfolio is the maximum estimated loss that can arise with a specified probability (confidence level) in the portfolio over a specified period of time (holding period) from an adverse market movement.

The VaR model used by the Bank is based on a 99% confidence level and assumes 1, 10 and 60-day holding periods (Depending on product type). The VaR model used is based mainly on historical simulation. Taking account of market data, and observed correlation between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

→ The holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe market liquidity.

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a 1% probability that losses could exceed the VaR in any given period.
- VaR is calculated does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes does not cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent on the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. The Bank determines the scenarios as follows:

- sensitivity scenarios consider the impact of any single risk factor or set of factors that are unlikely to be captured within the VaR models;

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- technical scenarios consider the largest move in each risk factor without consideration of any underlying market correlation; and
- hypothetical scenarios consider potential macro-economic events – e.g., periods of prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes, health pandemics, etc.

The analysis of scenarios and stress tests is reviewed by ALCO.

8.4.2.1 Equity price risk

Equity price risk is part of market risk which is defined as the risk of possible losses arising from the equity market investments due to changes in the market prices of the invested shares. The Bank is exposed to equity prices risk through its investments in the equity market which has been shown in the FVOCI portfolio and the trading portfolio.

Financial assets measured at fair value through profit or loss portfolio

Parameter	Position as at 31 December 2020 LKR '000	Position as at 31 December 2019 LKR '000
Marked-to-market value of the total quoted equity portfolio	44,880	4,777,423
Value-at-risk (under 99% probability for a quarterly time horizon)	28.93%	12.35%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VaR over a quarterly period	12,984	590,012
Unrealised gains in the trading equity portfolio reported in the fair value reserve	11,069	2,612,462

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss Method. Historical three-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by the Bank. This VAR computation for the equity trading portfolio considers a quarterly time horizon.

8.4.3 Exposure to market risks – Non-trading portfolios

Financial assets measured at fair value through other comprehensive income

Parameter	Position as at 31 December 2020 LKR '000	Position as at 31 December 2019 LKR '000
Marked-to-market value of the total quoted equity portfolio	12,299,552	8,812,702
Value-at-risk (under 99% probability for a quarterly time horizon)	27.48%	18.20%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VaR over a quarterly period	3,379,917	1,603,912
Unrealised gains in the trading equity portfolio reported in the fair value reserve	2,801,795	4,476,529

Equity price risk is quantified using the Value at Risk (VaR) approach based on the Historical Loss Method. Historical three-year portfolio returns is adopted to compute VaR as a measure of the equity prices risk exposure by the Bank. This VAR computation for the equity Trading portfolio considers a quarterly time horizon.

8.4.4 Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Duration analysis as at 31 December 2020

Portfolio	Face value LKR '000	Marked-to market value LKR '000	Duration	Interpretation of duration
Treasury securities measured at FVOCI/LKR Bonds	69,328,224	75,272,434	1.53	Portfolio value will decline approximately by 1.53% as a result of 1% increase in the interest rates
Treasury securities measured at FVOCI/Sovereign Bonds	1,311,660	931,706	1.66	Portfolio value will decline approximately by 1.66% as a result of 1% increase in the interest rates

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Market risk exposure for interest rate risk in the trading portfolio as at 31 December 2020 is Nil. Market risk exposure for interest rate risk in the FVOCI Rupee portfolio as at 31 December 2020 is depicted by duration of 1.53%.

This level of interest rate risk exposure in the Rupee FVOCI portfolio can be interpreted as a possible potential loss in the marked-to-market value amounting to LKR 1,154 Mn, as at 31 December 2020.

Market risk exposure for interest rate risk in the FVOCI US Dollar portfolio as at 31 December 2020 is depicted by duration of 1.66%.

This level of interest rate risk exposure in the FVOCI US Dollar portfolio can be interpreted as a possible potential loss in the marked-to-market value amounting to LKR 15.4 Mn, as at 31 December 2020.

8.4.4.1 Potential impact to NII due to change in market interest rates

Overall up to the 12-month time bucket, the Bank carried a net liability sensitive position. This sensitivity will vary for each time bucket up to the 12-month period where up to one month there is a net asset sensitive position.

The interest rate risk exposure as at 31 December 2020 is quantified based on the assumed change in the interest rates for each time period and is given in table below:

	Over 0 up to 1 month LKR '000	Over 1 up to 3 months LKR '000	Over 3 up to 6 months LKR '000	Over 6 up to 12 months LKR '000	Over 12 months LKR '000
31 December 2020					
Cash and cash equivalents	317,034	-	-	-	-
Placements with banks	15,414,287	-	-	-	-
Loans to and receivables from banks	4,152,717	-	-	-	-
Loans to and receivables from other customers	151,094,075	24,374,012	12,864,586	16,170,593	89,643,442
Investment securities	4,861,228	16,635,784	5,113,290	34,151,804	47,046,209
	175,839,341	41,009,796	17,977,876	50,322,397	136,689,651
Due to banks	1,792,092	7,927,554	-	-	5,000,000
Deposits from customers	89,795,761	58,804,855	68,468,382	53,354,008	30,962,639
Due to other borrowers	7,492,850	12,453,461	10,591,793	1,239,278	15,069,694
Debt securities in issue	-	-	-	-	16,291,279
Subordinated liabilities	-	-	-	1,791,357	17,566,140
	99,080,703	79,185,870	79,060,175	56,384,643	84,889,752
Net rate sensitive assets/(liabilities)	76,758,638	(38,176,074)	(61,082,299)	(6,062,246)	51,799,899
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	-
Impact	383,793	(349,947)	(687,176)	(60,622)	-
Total net impact if interest rates increase	-	-	-	(713,952)	-
Total net impact if interest rates decline	-	-	-	713,952	-

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	1 month to 0 LKR '000	Over 1 up to 3 months LKR '000	Over 3 up to 6 months LKR '000	Over 6 up to 12 months LKR '000	Over 12 months LKR '000
31 December 2019					
Cash and cash equivalents	333,741	-	-	-	-
Placements with banks	165,030	-	-	-	-
Loans to and receivables from banks	-	-	-	-	-
Loans to and receivables from other customers	151,965,068	7,780,400	12,106,527	14,419,459	78,745,361
Investment securities	338,257	9,499,387	3,357,174	2,852,941	77,802,123
	152,802,096	17,279,787	15,463,701	17,272,400	156,547,484
Due to banks	6,502,929	8,129,761	2,148,769	2,566,164	5,000,000
Deposits from customers	75,196,582	54,615,104	49,236,046	55,107,361	8,177,872
Due to other borrowers	9,178,922	8,835,038	10,163,228	3,435,505	15,511,272
Debt securities in issue	-	-	3,000,000	-	10,000,000
Subordinated liabilities	-	-	2,000,000	-	14,000,000
	90,878,433	71,579,903	66,548,043	61,109,030	52,689,144
Net rate sensitive assets/(liabilities)	61,923,663	(54,300,116)	(51,084,342)	(43,836,630)	103,858,340
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	
Impact	309,618	(497,751)	(574,699)	(438,366)	
Total net impact if interest rates increase				(1,201,198)	
Total net impact if interest rates decline				1,201,198	

The Bank has assumed that the assets and liabilities are repriced at the beginning of each time bucket and has also taken into account the remaining time from the repricing date up to one year.

8.4.5 Foreign exchange risk

Foreign exchange risk in net open position (NOP)/unhedged position of Bank

The following table indicates the DFCC's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31 December 2020, DFCC carried a USD equivalent net open/unhedged "Oversold" position of LKR 3.56 Mn. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent	(1,901,534)
Value of position in LKR '000	(356,309)
Exchange rate (USD/LKR) as at 31 December 2020	187.38
Possible potential loss to Bank – LKR '000	
- If Exchange rate (USD/LKR) depreciates by 1%	(3,563)
- If exchange rate depreciates by 10%	(35,631)
- If exchange rate depreciates by 15%	(53,446)

The estimated potential exchange loss is off set by the interest gain due to interest differential between Sri Lankan Rupee and the respective foreign currencies.

8.4.6 Market risk exposures for regulatory capital assessment

Under the standardised approach of Basel III with effect from July 2017, market risk exposures are quantified for regulatory capital purposes. The computation results as at 31 December 2020 are as follows:

	Risk-weighted assets LKR '000	Quantified possible exposure LKR '000
Interest rate risk	12,554,742	1,506,569
Equity price risk	18,450	2,214
Foreign exchange and gold risk	383,258	45,991
Total	12,956,450	1,554,774

8.5 Operational risk

“Operational risk” is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology, and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks arise from all of the Bank’s operations.

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

The following are included in the process of the operational risk management in the Bank:

- Monitoring of the Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits using a traffic light system. Develop Risk and Control Self-Assessments to identify the risk exposure of all processes.
- Operational risk incident reporting system and the independent analysis of the incidents by the IRMD, and recognise necessary improvements in the systems, processes and procedures.
- Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify operational risks and recommend mitigating controls. The key findings of the analysis are evaluated at the ORMC and the BIRMC meetings in an operational risk perspective.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to Senior Management within each business unit. Operational Risk Coordinating Officers are appointed within each department/Branch to assist in managing the Operational Risk. This responsibility is supported by the development of overall standards for management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including independent authorisation of transactions.
- Requirements for reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for periodic assessment of operational risks faced and the adequacy of controls and procedures to address the identified risks.
- Requirements for reporting of operational losses and propose remedial action.
- Development of contingency plans.
- Training and professional development to establish ethics and business standards.
- Insurance covering risk due to threats arising from external and other events.

Compliance with the Bank’s standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the business unit to which they relate, with summaries submitted to the Audit Committee and Senior Management.

Group operational risk assessments are conducted at the Board level.

8.5.1 Capital management

The Bank manages its capital at Bank and Group level considering both regulatory requirement and risk exposures. Its regulatory capital position is analysed by the BIRMC on a quarterly basis and recommendations and decisions are made accordingly. The capital management goals are as follows:

- Ensure regulatory minimum capital adequacy requirements are not compromised.
- Bank maintains its international and local credit ratings and ensures no downgrading occurs as a result of deterioration of risk capital of the Bank other than in an extreme change in external operating environment.
- Capital impact of business decisions including strategic business plans are properly assessed and taken into consideration.
- Ensure capital consumption by business actions are adequately priced.
- Optimising ROE

Notes to the Financial Statements

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank is required to comply with the provisions of the Basel III requirements in respect of regulatory capital commencing from July 2017. The Bank currently uses the standardised approach for credit risk and market risk and basic indicator approach for operational risk.

The Basel III capital regulations, which are currently in force, will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e., minimum capital requirement, supervisory review process and market discipline. Basel III focuses on increasing the quality and quantity of capital especially the Core Capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conservation Buffer and a Capital Surcharge on domestic systematically important banks. DFCC Bank started reporting capital computations under the Basel III requirements from mid 2017 as per the regulatory requirements.

Regulatory capital comprises Tier 1 capital and Tier 2 capital. The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor, and market confidence to sustain future development of the business. DFCC Bank and its Group have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the year.

Extraordinary regulatory measures issued by Central Bank of Sri Lanka on 27 March 2020, to provide flexibility to Licensed Banks to support business and individuals affected by the outbreak of COVID-19, allowed the Bank to draw down 0.5% of the capital conservation buffer setting the regulatory minimum requirement as 8% for Tier 1 capital ratio and 12% for Total capital ratio.

8.5.1.1 Key regulatory ratios – Capital adequacy

Item	31 December 2020		31 December 2019	
	Bank	Group	Bank	Group
Regulatory capital (LKR '000)				
Common equity Tier 1	35,041,771	35,113,117	34,824,554	34,908,304
Tier 1 Capital	35,041,771	35,113,117	34,824,554	34,908,304
Total Capital	51,055,165	51,126,511	48,542,925	48,626,675
Regulatory capital ratios (%)				
Common equity Tier 1 Capital ratio	10.820	10.816	11.342	11.327
Minimum requirement 2020 – 6.5% (2019 – 7.00%)				
Tier 1 capital ratio	10.820	10.816	11.342	11.327
Minimum requirement 2020 – 8.0% (2019 – 8.5%)				
Total capital ratio	15.764	15.749	15.810	15.778
Minimum requirement 2020 – 12.0% (2019 – 12.5%)				

Basel III computation of capital ratios

Item	Amount (LKR '000)			
	31 December 2020		31 December 2019	
	Bank	Group	Bank	Group
Common Equity Tier 1 (CET1) Capital after Adjustments	35,041,771	35,113,117	34,824,554	34,908,304
Common Equity Tier 1 (CET1) Capital	45,423,144	48,839,196	42,000,264	45,050,466
Equity Capital (Stated Capital)/Assigned Capital	7,682,465	7,682,465	7,530,371	7,530,371
Reserve Fund	2,583,968	2,583,968	2,461,968	2,461,968
Published retained earnings/(Accumulated retained losses)	19,652,168	23,061,080	18,228,086	21,278,288
Published accumulated Other Comprehensive Income (OCI)	1,724,704	1,731,844	–	–
General and other disclosed reserves	13,779,839	13,779,839	13,779,839	13,779,839
Unpublished current year's profit/loss and Gains reflected in OCI	–	–	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total Adjustments to CET1 Capital	10,381,374	13,726,078	7,175,709	10,142,162
Goodwill (net)	–	156,226	–	156,226
Intangible assets (net)	1,713,052	1,728,580	1,184,659	1,205,923
Investment in capital of banks and financial institutions	8,571,286	11,838,353	5,762,829	8,648,828
Others	97,036	2,919	228,221	131,185
Additional Tier 1 (AT1) Capital after adjustments				
Additional Tier 1 (AT1) Capital				
Qualifying Additional Tier 1 Capital Instruments	–	–	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total Adjustments to AT1 Capital				

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Item	Amount (LKR '000)			
	31 December 2020		31 December 2019	
	Bank	Group	Bank	Group
Investment in own shares	-	-	-	-
Others (specify)	-	-	-	-
Tier 2 Capital after adjustments	16,013,394	16,013,394	13,718,371	13,718,371
Tier 2 Capital	16,013,394	16,013,394	13,718,371	13,718,371
Qualifying Tier 2 Capital Instruments	14,174,868	14,174,868	12,034,562	12,034,562
Revaluation gains	-	-	-	-
Loan loss provisions	1,838,526	1,838,526	1,683,809	1,683,809
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	-	-
Total adjustments to Tier 2				
Investment in own shares	-	-	-	-
Others (specify)	-	-	-	-
CET1 Capital	35,041,771	35,113,117	34,824,554	34,908,304
Total Tier 1 Capital	35,041,771	35,113,117	34,824,554	34,908,304
Total Capital	51,055,165	51,126,511	48,542,925	48,626,675
Total Risk Weighted Assets (RWA)				
RWAs for credit risk	293,505,729	293,920,302	274,009,885	274,759,093
RWAs for market risk	12,956,450	12,956,450	16,956,352	16,956,352
RWAs for operational risk	17,400,093	17,751,642	16,074,112	16,479,374
CET1 Capital Ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	10.820	10.816	11.342	11.327
of which: Capital Conservation Buffer (%)	1.20	1.20	1.25	1.25
of which: Countercyclical Buffer (%)	N/A	N/A	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	N/A	N/A	N/A	N/A
Total Tier 1 Capital Ratio (%)	10.820	10.816	11.342	11.327
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	15.764	15.749	15.810	15.778
of which: Capital Conservation Buffer (%)	1.20	1.20	1.25	1.25
of which: Countercyclical Buffer (%)	N/A	N/A	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	N/A	N/A	N/A	N/A

9 Fair values of financial instruments →

See accounting policy in Note 5.3.7.

9.1 Valuation models

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

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

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

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

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

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

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like Government Securities, interest rate and currency swaps that use mostly observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, Government Securities and simple over the counter derivatives like forward exchange contracts and interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

9.2 Valuation framework

The established control framework with respect to the measurement of fair values, includes an oversight which is independent of front office management. Treasury Middle Office has overall responsibility for independently verifying the results of trading and investment operation.

Specific controls include:

- Verification of observable pricing
- Review and approval process for new models and changes to models involving both product control and group market risk
- Calibration and back testing of models
- Stress testing

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When third party information, such as broker quotes or pricing services is used to measure fair value, the evidence so obtained to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs is documented.

This includes:

- Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument
- Several quotes obtained from randomly selected brokers for the same financial instrument and the fair value determined on this basis

Any changes to the fair value methodology is reported to the Bank's Audit Committee.

9.3 Financial instruments measured at fair value – Fair value hierarchy

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

A. Bank/Group

As at 31 December 2020	Notes	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets					
Derivative financial assets	29				
Forward foreign exchange contracts		-	835,464	-	835,464
Financial assets measured at fair value through profit or loss	30				
Equity securities – quoted		44,880	-	-	44,880
Units in unit trusts – quoted		3,740	-	-	3,740
Units in unit trusts – unquoted		-	561,097	-	561,097
Financial assets measured at fair value through other comprehensive income	34				
Government of Sri Lanka Treasury Bills and Bonds		75,272,434	-	-	75,272,434
Sri Lanka Sovereign Bonds		931,706	-	-	931,706
Equity shares – quoted		12,299,552	-	-	12,299,552
Equity shares – unquoted		-	-	213,810	213,810
Preference shares		-	-	500	500
		88,552,312	1,396,561	214,310	90,163,183
Financial liabilities					
Derivative financial liabilities	29				
Forward foreign exchange contracts		-	267,883	-	267,883
		-	267,883	-	267,883

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As at 31 December 2019	Notes	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets					
Derivative financial assets	29				
Forward foreign exchange contracts		–	631,438	–	631,438
Financial assets measured at fair value through profit or loss	30				
Equity securities – quoted		4,777,423	–	–	4,777,423
Units in unit trusts – quoted		3,740	–	–	3,740
Units in unit trusts – unquoted		–	525,903	–	525,903
Financial assets measured at fair value through other comprehensive income	34				
Government of Sri Lanka Treasury Bills and Bonds		61,442,296	–	–	61,442,296
Sri Lanka Sovereign Bonds		2,260,552	–	–	2,260,552
Equity securities – quoted		8,812,702	–	–	8,812,702
Equity securities – unquoted		–	–	200,357	200,357
Preference shares		–	–	500	500
		77,296,713	1,157,341	200,857	78,654,911
Financial liabilities					
Derivative financial liabilities	29				
Forward foreign exchange contracts		–	518,731	–	518,731
		–	518,731	–	518,731

As Treasury Bills/Bonds are valued using Central Bank published rates, investments in Treasury Bills/Bonds are classified under Level 1. Other securities which are listed in Colombo stock exchange are also classified as Level 1 asset by referring to the quoted prices.

9.3.1 Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

Notes to the Financial Statements

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Unquoted equity shares	Net asset approach: The fair value is determined based on the net assets value of the unquoted equity share	Net asset value per share	The estimated fair value would increase/(decrease) if the adjusted net asset value per share were higher/(lower)
Forward exchange contracts	Forward pricing: The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.	Not applicable	Not applicable
Interest rate swaps/Cross currency swaps	Swap models: The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.	Not applicable	Not applicable
Units in unit trusts – unquoted	The fair value is determined by using the Daily Prices published by the Unit Trust managers (which is derived by dividing the net asset value by the number of units)	Not applicable	Not applicable

9.3.2 Transfers between Levels 1 and 2

There were no transfers from Level 1 to Level 2 or Level 2 to Level 1 in 2020 and no transfers in either direction in 2019.

9.3.3 Level 3 recurring fair values

9.3.3.1 Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	Equity securities	
	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Balance at 1 January	200,357	188,789
Purchased during the year	–	1,000
Gain included in OCI		
– Net change in fair value (unrealised)	13,453	10,568
Balance at 31 December	213,810	200,357

9.3.3.2 Transfer out of Level 3

There were no transfers out of Level 3 and no transfers out of Level 2 in 2020.

9.3.3.3 Sensitivity analysis

For the fair values of equity securities, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

Equity securities As at 31 December 2020	OCI, net of tax	
	Increase LKR '000	Decrease LKR '000
Adjusted net assets value (5% movement)	10,691	(10,691)

Accounting judgements, estimates and assumptions

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, those are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if

this is not available, judgement to establish fair values. The valuation of financial instruments is described in more detail in Note 4 to the financial statements.

COVID-19 Considerations

The Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the reporting date.

The majority of valuation models the Group uses employ only observable market data as inputs. This has not changed as a result of COVID-19. However the Group has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

For certain financial instruments, the Group may use data that is not readily observable in current markets. If

we use unobservable market data, then more judgement is exercised to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, unobservable inputs are derived from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value. The Group may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 10 Derivative Financial Instruments) to reflect the Group's assessment of factors that market participants would consider in setting fair value.

9.4 Financial instruments not measured at fair value

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

As at 31 December 2020	Notes	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Bank						
Assets						
Cash and cash equivalents	26	–	7,724,364	–	7,724,364	7,724,364
Balances with Central Bank of Sri Lanka	27	–	4,901,753	–	4,901,753	4,901,753
Placements with banks	28	–	15,414,287	–	15,414,287	15,414,287
Financial assets at amortised cost – Loans to and receivables from banks	31	–	4,152,717	–	4,152,717	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	295,969,708	295,969,708	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	18,412,228	13,221,152	–	31,633,380	31,604,175
Other assets	42	–	–	1,999,405	1,999,405	1,999,405
Total		18,412,228	45,414,273	297,969,113	361,795,614	367,706,038
Liabilities						
Due to banks	44	–	14,909,937	–	14,909,937	14,909,937
Financial assets at amortised cost – Due to depositors	45	–	–	304,408,686	304,408,686	310,026,892
Financial assets at amortised cost – Due to other borrowers	46	–	–	46,847,076	46,847,076	46,847,076
Debt securities in issue	47	–	17,124,659	–	17,124,659	16,291,279
Other liabilities	50	–	–	4,783,877	4,783,877	4,783,877
Subordinated term debt	51	–	20,476,257	–	20,476,257	19,357,497
Total		–	52,510,853	356,039,639	408,550,492	412,216,558

Notes to the Financial Statements

As at 31 December 2019	Notes	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Assets						
Cash and cash equivalents	26	-	5,450,209	-	5,450,209	5,450,209
Balances with Central Bank of Sri Lanka	27	-	8,666,547	-	8,666,547	8,666,547
Placements with banks	28	-	165,030	-	165,030	165,030
Financial assets at amortised cost – Loans to and receivables from banks	31	-	-	-	-	-
Financial assets at amortised cost – Loans to and receivables from other customers	32	-	-	269,198,869	269,198,869	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	20,531,578	10,127,494	-	30,659,072	30,147,032
Other assets	42	-	-	2,148,567	2,148,567	2,148,567
Total		20,531,578	24,409,280	271,347,436	316,288,294	319,395,696
Liabilities						
Due to banks	44	-	24,594,828	-	24,594,828	24,594,828
Financial liabilities at amortised cost – Due to depositors	45	-	-	248,066,585	248,066,585	247,786,974
Financial liabilities at amortised cost – Due to other borrowers	46	-	-	47,307,556	47,307,556	47,307,556
Debt securities in issue	47	-	14,708,677	-	14,708,677	14,148,198
Other liabilities	50	-	-	3,786,445	3,786,445	3,786,445
Subordinated term debt	51	-	17,389,799	-	17,389,799	16,859,914
Total		-	56,693,304	299,160,586	355,853,890	354,483,915

As at 31 December 2020	Notes	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Group						
Assets						
Cash and cash equivalents	26	-	7,728,969	-	7,728,969	7,728,969
Balances with Central Bank of Sri Lanka	27	-	4,901,753	-	4,901,753	4,901,753
Placements with banks	28	-	15,431,962	-	15,431,962	15,431,962
Financial assets at amortised cost – Loans to and receivables from banks	31	-	4,152,717	-	4,152,717	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	-	-	295,969,708	295,969,708	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	18,412,228	13,221,152	-	31,633,380	31,604,175
Other assets	42	-	-	2,066,621	2,066,621	2,066,621
Total		18,412,228	45,436,553	298,036,329	361,885,110	367,795,534
Liabilities						
Due to banks	44	-	14,909,937	-	14,909,937	14,909,937
Financial liabilities at amortised cost – Due to depositors	45	-	-	303,948,217	303,948,217	309,566,423
Financial liabilities at amortised cost – Due to other borrowers	46	-	-	46,847,076	46,847,076	46,847,076
Debt securities in issue	47	-	17,124,659	-	17,124,659	16,291,279
Other liabilities	50	-	-	4,900,958	4,900,958	4,900,958
Subordinated term debt	51	-	20,476,257	-	20,476,257	19,357,497
Total		-	52,510,853	355,696,251	408,207,104	411,873,170

Notes to the Financial Statements

As at 31 December 2019	Notes	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Assets						
Cash and cash equivalents	26	–	5,459,359	–	5,459,359	5,459,359
Balances with Central Bank of Sri Lanka	27	–	8,666,547	–	8,666,547	8,666,547
Placements with banks	28	–	200,441	–	200,441	200,441
Financial assets at amortised cost - Loans to and receivables from banks	31	–	–	–	–	–
Financial assets at amortised cost - Loans to and receivables from other customers	32	–	–	269,198,868	269,198,868	272,818,311
Financial assets at amortised cost Debt and other instruments	33	20,531,578	10,127,494	–	30,659,072	30,147,032
Other assets	42	–	–	2,238,053	2,238,053	2,238,053
Total		20,531,578	24,453,841	271,436,921	316,422,340	319,529,743
Liabilities						
Due to banks	44	–	24,594,828	–	24,594,828	24,594,828
Financial liabilities at amortised cost – Due to depositors	45	–	–	248,066,585	248,066,585	247,457,696
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,307,556	47,307,556	47,307,556
Debt securities in issue	47	–	14,708,677	–	14,708,677	14,148,198
Other liabilities	50	–	–	3,907,977	3,907,977	3,907,977
Subordinated term debt	51	–	17,389,799	–	17,389,799	16,859,914
Total		–	56,693,304	299,282,118	355,975,422	354,276,169

Given below is the basis adopted by the Bank/Group in order to establish the fair values of the financial instruments:

9.4.1 Cash and cash equivalents and placements with banks

Carrying amounts of cash and cash equivalents and placements with banks approximates their fair value as these balances have a remaining maturity of less than three months from the reporting date.

9.4.2 Loans to and receivables from banks and other customers – Lease rentals receivable

The estimated fair value of lease rentals receivable is the present value of future cash flows expected to be received from such finance lease facilities calculated based on current interest rates for similar type of facilities.

9.4.3 Loans to and receivables from banks and other customers – Other loans

	Composition (%)
Floating rate loan portfolio	77
Fixed rate loans	
– With remaining maturity less than one year	9
– Others	14

Since the floating rate loans can be repriced monthly, quarterly and semi-annually in tandem with market rates fair value of these loans is approximately same as the carrying value. Carrying amount of fixed rate loans with a remaining maturity of less than one year approximates the fair value.

Notes to the Financial Statements

Based on the results of the fair value computed on the lease rentals receivable, it is estimated that the fair value of the other loans at fixed interest rates with maturity of more than one year is not materially different to its carrying value as at the reporting date.

9.4.4 Financial assets at amortised cost – Debt and other instruments

Fair value of the fixed rate debentures are based on prices quoted in the Colombo Stock Exchange, where there is an active market for quoted debentures.

Where there is no active market, fair value of the fixed rate debentures has been determined by discounting the future cash flows by the interest rates derived with reference to Government Treasury Bond rates with adjustments to risk premiums at the time of investment.

9.4.5 Due to banks

Carrying value of amounts due to banks approximates their fair value as these balances have a remaining maturity of less than one year from the reporting date.

9.4.6 Due to other customers

The carrying value of deposits with a remaining maturity of less than one year approximates the fair value.

Fair values of deposits with a remaining maturity of more than one year is estimated using discounted cash flows applying current interest rates offered for deposits of similar remaining maturities.

The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the reporting date and the savings account balances are repriced frequently to match with the current market rates, therefore the demand and saving deposits carrying amounts are reasonable approximation to the fair values as at the reporting date.

9.4.7 Other borrowing

This consists of borrowings sourced from multilateral and bilateral institutions. 70% of these borrowing are repriced either monthly, quarterly or semi-annually and rates are revised in line with changes in market rates. Hence the carrying value of these borrowings approximates the fair value.

The others at fixed rates which relates to borrowings on credit lines are based on interest rates which are specific to each refinancing arrangement and as such there are no comparable market rates. Hence, the fair value approximates the carrying value.

9.4.8 Debt securities in issue

Debts issued comprise the USD notes issue and LKR debentures. Fair value of the USD notes are determined by reference to the bid and ask price quoted in the Singapore Stock Exchange. The LKR debentures are fair valued by reference to current Government Treasury Bond rates with a risk premium.

10 Gross income →

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Interest income (Note 11.1.1)	39,089,986	42,060,055	39,095,445	42,062,054
Fee and commission income (Note 12.1.1)	2,193,474	2,165,314	2,192,557	2,162,006
Net gain/(loss) from trading (Note 13)	479,153	(87,116)	479,153	(87,116)
Net loss from financial instruments at fair value through profit or loss (Note 14)	(497,931)	(2,633,183)	(497,931)	(2,633,183)
Net gains from derecognition of financial assets (Note 15)	510,386	209,890	510,386	209,890
Net other operating income (Note 16)	1,524,732	1,582,055	1,824,837	1,934,636
	43,299,800	43,297,015	43,604,447	43,648,287

11 Net interest income →

Accounting Policy →

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method.

The “effective interest rate” is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The “amortised cost” of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any

difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The “gross carrying amount of a financial asset” is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

As per the internal risk management policies of the Bank, the facilities are considered to be credit impaired when three or more instalments are in arrears and the Bank has estimated that the probability of recoverability of the interest income from such loan facilities are low. Accordingly the Bank discontinues recognition of interest income on such loan facilities and cash flows are assessed based on the amortised cost net of interest. If the asset is no longer credit impaired the calculation of interest income reverts to the gross basis.

11.1 Composition

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Interest income (Note 11.1.1)	39,089,986	42,060,055	39,095,445	42,062,054
Interest expenses (Note 11.1.2)	(28,083,159)	(29,397,598)	(28,052,259)	(29,363,105)
Net interest income	11,006,827	12,662,457	11,043,186	12,698,949

Notes to the Financial Statements

11.1.1 Interest income

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Placements with banks	273,321	195,841	278,780	198,193
Financial assets measured at fair value through profit or loss	2,969	12,105	2,969	12,105
Financial assets at amortised cost – Loans to and receivables from banks	43,183	89,331	43,183	88,978
Financial assets at amortised cost – Loans to and receivables from other customers	31,401,629	34,626,817	31,401,629	34,626,817
Financial assets at amortised cost – Debt and other instruments	2,455,017	2,608,276	2,455,017	2,608,276
Financial assets measured at fair value through other comprehensive income	4,913,867	4,527,685	4,913,867	4,527,685
Total interest income	39,089,986	42,060,055	39,095,445	42,062,054

Interest Income from Loans to and receivables from other customers includes modifications made to loans due to moratorium/debt concessionary schemes implemented by the Government/Bank as a measure to support the recovery of businesses/customers affected by COVID-19 pandemic.

11.1.2 Interest expenses

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Due to banks	1,962,008	1,557,529	1,962,008	1,557,563
Financial liabilities at amortised cost – Due to depositors	20,283,204	21,900,545	20,252,304	21,863,289
Financial liabilities at amortised cost – Due to other borrowers	2,063,873	2,517,519	2,063,873	2,520,248
Debt securities in issued	3,774,074	3,422,005	3,774,074	3,422,005
Total interest expenses	28,083,159	29,397,598	28,052,259	29,363,105

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Financial assets measured at amortised cost (Note 25)	367,706,038	319,395,696	367,795,534	319,529,743
Financial assets measured at FVOCI (Note 25)	88,718,002	72,716,407	88,718,002	72,716,407
Total	456,424,040	392,112,103	456,513,536	392,246,150
Financial liabilities measured at amortised cost (Note 25)	412,216,558	354,483,915	411,873,195	354,276,169

11.1.3 Interest income from Government Securities – Bank/Group

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Financial assets measured at fair value through profit or loss	2,969	12,105
Financial assets at amortised cost – Loans to and receivables from banks	43,183	89,331
Financial assets at amortised cost – Debt and other instruments	2,302,655	2,302,523
Financial assets measured at fair value through other comprehensive income	4,913,867	4,527,685
	7,262,674	6,931,644

12 Net fee and commission income →

Accounting Policy →

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other Fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Group first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of the contract. Fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

12.1 Composition

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Fee and commission income (Note 12.1.1)	2,193,474	2,165,314	2,192,557	2,162,006
Fee and commission expenses	(132,157)	(119,603)	(132,157)	(119,603)
Net fee and commission income	2,061,317	2,045,711	2,060,400	2,042,403

Notes to the Financial Statements

12.1.1 Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major type of services.

Major service lines

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Loans and advances	887,024	812,655	887,024	812,655
Credit cards	192,228	115,454	192,228	115,454
Trade and remittances	551,999	544,193	551,999	544,193
Customer accounts	231,336	412,037	231,336	412,037
Guarantees	296,110	268,312	296,110	268,312
Others (Management, consulting, and other fees)	34,777	12,663	33,860	9,355
Fee and commission income	2,193,474	2,165,314	2,192,557	2,162,006

Fee and commission income in 2020 was primarily driven by lower levels of consumer spending resulting from COVID-19, which crystallised in the form of lower interchange income, international payments, foreign exchange and ATM reciprocity.

12.1.2 Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

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

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

13 Net gain/(loss) from trading →**Accounting Policy** →

Results arising from trading activities include all gains and losses from realised and unrealised fair value changes, related capital gains and losses, dividend income from trading assets and trading liabilities and foreign exchange differences.

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Foreign exchange from banks	387,113	538,838	387,113	538,838
Government Securities				
Net capital gain	8,303	21,072	8,303	21,072
Equities				
Net marked to market gain/(loss)	11,069	(919,614)	11,069	(919,614)
Net capital gain	71,153	7,912	71,153	7,912
Dividend income	1,515	264,676	1,515	264,676
	479,153	(87,116)	479,153	(87,116)

14 Net loss from financial instruments at fair value through profit or loss →**Accounting Policy** →

The Bank has non-trading derivatives held for risk management purposes (e.g. forward foreign exchange purchase or sale contracts) that do not form part of qualifying hedge relationship, that are mandatorily fair valued through profit or loss. In respect of such financial instruments, all unrealised fair value changes and foreign exchange differences are included.

14.1 Net loss from financial instruments mandatorily measured at FVTPL other than those included in "net trading income"

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Forward exchange fair value changes				
Contracts with commercial banks	(543,169)	(2,578,178)	(543,169)	(2,578,178)
Gain/(loss) on financial assets fair value through profit or loss on equity securities	45,238	(48,042)	45,238	(48,042)
Interest rate swap fair value changes	-	(6,963)	-	(6,963)
	(497,931)	(2,633,183)	(497,931)	(2,633,183)

Forward exchange fair value changes on contracts with commercial banks includes the unrealised gain/(loss) on derivatives carried for risk management purposes, after netting off the spot movement arising from the long-term foreign currency liabilities designated as hedge item as per the fair value hedge applied by the Bank (Note 29.2). The Bank has applied the fair value hedge accounting for a part of its foreign currency liabilities using forward contracts.

Notes to the Financial Statements

15 Net gains from derecognition of financial assets →

Accounting Policy →

“Net gains from derecognition of financial assets” comprised realised gains less losses related to debt instruments measured at FVOCI and financial assets measured at amortised cost and FVTPL as per SLFRS 9.

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Fair value through profit or loss				
Gain on sale of equity securities	5,102	99,040	5,102	99,040
Fair value through other comprehensive income				
Gain on sale of Government Securities	505,284	110,850	505,284	110,850
	510,386	209,890	510,386	209,890

16 Net other operating income →

Accounting Policy →

Net other operating income includes realised gain or loss on sale of fair value through other comprehensive income securities (e.g. Treasury Bills and Bonds, and dividend income from ordinary shares classified as fair value through other comprehensive income financial assets, dividend income from group entities, rental income, gains on disposal of property, plant and equipment and foreign exchange gains and losses.

Rental income

Rental income and expenses are accounted on a straight-line basis over the entire period of the tenancy incorporating predetermined rent escalation during the period of the tenancy.

Dividend income

Dividend income is recognised when the right to receive payment is established. Dividend income are presented in net gain/(loss) from trading and net other income, net based on underlying classification of the equity investment.

Where the dividend clearly represents a recovery of part of the cost of the investment, it is presented in other comprehensive income. Dividend income from subsidiaries and joint venture is recognised when the Bank's right to receive the dividend is established.

Gains and losses on disposal of assets

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets including investments in subsidiaries, joint venture and associate are accounted for, in the statement of profit or loss after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Foreign exchange gain/(loss)

Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Financial assets measured at fair value through other comprehensive income				
Loss on sale of equity securities	(17)	–	(17)	–
Dividend income	742,511	526,276	742,511	526,276
Equities measured at fair value through profit or loss				
Dividend income	–	125	–	125
Dividend income from subsidiaries, joint venture, and associate	139,277	152,376	–	–
Net gain from repurchase transactions	549,618	351,895	549,618	351,895
Premises rental income	–	23,344	293,668	317,722
Gain on sale of property, plant and equipment	13,708	33,494	23,240	33,494
Foreign exchange gains	23,292	474,203	23,292	474,203
Recovery of loans written-off	42,021	7,601	42,021	9,052
Others	14,322	12,741	150,504	221,869
	1,524,732	1,582,055	1,824,837	1,934,636

17 Impairment for loans and other losses →

Accounting Policy →

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

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

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of “investment grade”. The Group does not apply the low credit risk exemption to any other financial instruments.

Individually assessed loans and advances and held-to-maturity debt instruments

These are exposures, where evidence of impairment exists and those that are individually significant meriting individual assessment for objective evidence of impairment and computation of impairment allowance. The factors considered in determining that the exposures are individually significant include –

- the size of the loan; and
- the number of loans in the portfolio.

For all loans and held-to-maturity debt instruments that are considered individually significant, Bank assesses on a case-by-case basis, whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evidence include –

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

Notes to the Financial Statements

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

Impairment allowance on loans and advances and other financial instruments measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Collective assessment

This includes all loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

These loans and advances are grouped together as per Basel Guidelines and product level according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In making an assessment of whether an investment in debt instrument is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

The Bank manages credit quality using a three stage approach which is in line with SLFRS 9.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as "Stage 1 financial instruments". Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as "Stage 2 financial instruments". Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as "Stage 3 financial instruments".

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where appropriate for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- a quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due, except for, which a backstop of 60 days past due is applied.

COVID-19 initiatives

For facilities subject to the COVID-19 repayment deferral arrangements, an assessment of Significant Increase in Credit Risk (SICR) has been determined based on various measures of the customer's current financial position, future earnings capacity and the sectors in which the customers operate from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Based on the risk categorisation, facilities have been stress tested and required allowance overlays have been made.

Generating the term structure of PD

The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date.

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experiences.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; except for, for which a backstop of 60 days past due is applied.
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- the assessment of the external rating agencies indicates a default grading of the borrower; or
- all credit facilities listed in 1.3 of Annex 1 of the Directive No. 04 of 2018 issued by Central Bank of Sri Lanka on adoption of Sri Lanka Accounting Standard – SLFRS 9 on “Financial Instruments”

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL using a variety of external actual and forecasted information.

The Bank formulates a base case view of the future direction of relevant economic variables as well as a representative range (Best Case and Worst Case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources. The base case represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables credit risk and credit losses.

Notes to the Financial Statements

The economic variables used by the Bank based on the statistical significance include the followings:

Unemployment rate	} Base case scenario along with two other scenarios has been used (Best Case and Worst Case)
Interest rate	
GDP growth rate	
Inflation rate	
Exchange rate	

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 5.3.4.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank's Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered Stage 1.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate;
- lease receivables: the discount rate used in measuring the lease receivable;
- undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

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

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD.

Lifetime ECL are calculated by multiplying the lifetime PD by LGD and EAD.

The methodology for estimating PDs is discussed above under the heading "Generating the term structure of PD".

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery. Costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan to value (LTV) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for lending collateralised by property, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are banked on the basis of shared risk characteristics, which may include:

- instrument type;
- credit risk grade;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The bankings are subject to regular review to ensure that exposures within a particular bank remain appropriately homogeneous.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Purchase of credit-impaired (POCI) financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition.

Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion

Notes to the Financial Statements

thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance accordingly. The write-back is recognised in the income statement.

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required have been received.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

Financial guarantee contracts held

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in "other assets". The Group presents gains or losses on a compensation right in profit or loss in the line item "impairment losses on financial instruments".

Presentation of allowance for ECL in the statement of financial position loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in fair value reserve.

Regulation issued by Central Bank of Sri Lanka ("CBSL")

During the year the CBSL issued various circulars after the outbreak of COVID-19 relating to moratorium/debt relief/credit support to customers and industries schemes offered by the Government to support recovery of the economy. These circulars had/expected to have impact on Recognition of Interest Income, stage-wise classification of facilities and computation of expected credit loss.

Notes to the Financial Statements

Composition

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Financial assets at amortised cost – Loans to and receivables from other customers	2,940,811	1,590,392	2,940,811	1,590,392
Financial assets at amortised cost – Debt and other instruments	121,713	37,157	121,713	37,157
Financial assets measured at fair value through other comprehensive income	73,699	14,384	73,699	14,384
Loan commitments	176,259	(16,950)	176,259	(16,950)
Other debts	11,927	63,483	11,927	63,483
Investment in subsidiaries	(30,000)	(20,400)	–	–
Write-offs – Loans to and receivables from other customers	3,483	847	3,483	847
	3,297,892	1,668,913	3,327,892	1,689,313

Impairment charge to the income statement

For the year ended 31 December 2020	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Financial assets at amortised cost – Loans to and receivables from other customers	32.1.4	404,581	(494,452)	3,030,682	2,940,811
Financial assets at amortised cost – Debt and other instruments	33.3	121,713	–	–	121,713
Financial assets measured at fair value through other comprehensive income	34.7	73,699	–	–	73,699
Loan commitments	57.1.1	179,454	(3,195)	–	176,259
		779,447	(497,647)	3,030,682	3,312,482
Other debts					11,927
Investment in subsidiaries	35.1				(30,000)
Write-offs – Loans to and receivables from other customers					3,483
Total impairment charge – Bank					3,297,892
Adjustment for investment in subsidiaries					30,000
Total impairment charge – Group					3,327,892

Notes to the Financial Statements

For the year ended 31 December 2019	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Financial assets at amortised cost – Loans to and receivables from other customers	32.1.4	116,321	(790,380)	2,264,451	1,590,392
Financial assets at amortised cost – Debt and other instruments	33.3	37,157	–	–	37,157
Financial assets measured at fair value through other comprehensive income	34.7	14,384	–	–	14,384
Contingent liabilities and commitments	57.1.1	1,458	(18,408)	–	(16,950)
		169,320	(808,788)	2,264,451	1,624,983
Other debts					63,483
Investment in subsidiaries	35.1				(20,400)
Write-offs – Loans to and receivables from other customers					847
Total impairment charge – Bank					1,668,913
Adjustment for investment in subsidiaries					20,400
Total impairment charge – Group					1,689,313

18 Personnel expenses →

Accounting Policy →

Accounting Policies in Note 48.

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

18.1 Composition

For the year ended 31 December	Note	BANK		GROUP	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Salaries and other benefits		2,843,658	3,210,136	3,005,722	3,352,556
Contributions to defined benefit plans	18.1.1	199,187	171,890	205,142	178,206
Contributions to defined contribution plans	18.1.2	356,859	342,381	377,308	363,972
		3,399,704	3,724,407	3,588,172	3,894,734

18.1.1 Contributions to defined benefit plans

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Funded pension liability				
Current service cost	53,864	54,839	53,864	54,839
Interest on obligation	259,439	250,331	259,439	250,331
Expected return on pension assets	(248,700)	(240,353)	(248,700)	(240,353)
	64,603	64,817	64,603	64,817
Unfunded pension liability				
Interest on obligation	5,625	5,678	5,625	5,678
	5,625	5,678	5,625	5,678
Unfunded end of service gratuity liability				
Current service cost	78,850	66,582	82,804	71,027
Interest on obligation	50,109	34,813	52,110	36,684
	128,959	101,395	134,914	107,711
Total defined benefit plans	199,187	171,890	205,142	178,206

18.1.2 Contributions to defined contribution plans

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Employer's contribution to Employees' Provident Fund	297,383	285,205	313,846	302,613
Employer's contribution to Employees' Trust Fund	59,476	57,176	63,462	61,359
Total defined contribution plans	356,859	342,381	377,308	363,972

19 Depreciation and amortisation →

See accounting policy in Note 39 and 40.

For the year ended 31 December	Note	BANK		GROUP	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Depreciation					
Investment property	38	–	–	21,057	28,836
Property, plant and equipment	39	383,461	341,764	407,669	364,112
Right-of-use assets	39	292,457	282,313	292,757	284,113
Amortisation					
Intangible assets	40	243,739	219,579	249,475	224,349
		919,657	843,656	970,958	901,410

Notes to the Financial Statements

20 Other expenses →

Accounting Policy →

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning 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 the income statement.

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Directors' emoluments	17,445	20,595	18,001	21,075
Auditors' remuneration				
Audit fees and expenses	4,700	5,424	5,520	6,231
Audit related fees and expenses	2,737	1,477	2,940	1,697
Fees for non-audit services	520	1,840	612	1,938
Professional and legal expenses	21,455	22,723	21,455	22,723
Premises, equipment and establishment expenses	1,662,756	1,521,317	1,662,756	1,521,317
Other overhead expenses	1,357,616	1,431,735	1,284,062	1,439,520
	3,067,229	3,005,111	2,995,346	3,014,501

Directors emoluments include fees paid to Non-Executive Directors Remuneration paid to Executive Directors are included under salaries and other benefits in Note 18.1.

21 Taxes on financial services →

Accounting Policy →

Value Added Tax on financial services (VAT)

VAT on financial services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto.

The value base for computation of VAT is the operating profit before taxes on financial services adjusted for emoluments of employees and depreciation computed as per prescribed rates.

Nation Building Tax on financial services (NBT)

NBT on financial services is calculated in accordance with Nation Building Tax Act No. 09 of 2009 and subsequent amendments thereto. NBT is chargeable on the same base used for calculation of VAT on financial services. NBT has been removed with effect from 1 December 2019.

Debt Repayment Levy on financial services (DRL)

With effect from 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services through an amendment to the Finance Act No. 35 of 2018. DRL is chargeable on the same base used for calculation of VAT on financial services before deducting the VAT and NBT on financial services. This levy has been removed with effect from 1 January 2020.

21.1 Composition

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Value Added Tax on financial services (Note 21.1.1)	1,015,574	963,734	1,015,574	963,734
Nation Building Tax on financial services (Note 21.1.2)	(11,611)	131,607	(11,611)	131,607
Debt Repayment Levy (Note 21.1.3)	(2,401)	453,121	(2,401)	453,121
Total	1,001,562	1,548,462	1,001,562	1,548,462

21.1.1 Value Added Tax on financial services

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Current year	997,315	950,588	997,315	950,588
Under provision in respect of previous year	18,259	13,146	18,259	13,146
	1,015,574	963,734	1,015,574	963,734

21.1.2 Nation Building Tax on financial services

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Current year	–	129,854	–	129,854
Over provision in respect of previous year	(11,611)	1,753	(11,611)	1,753
	(11,611)	131,607	(11,611)	131,607

21.1.3 Debt Repayment Levy

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Current year	–	557,044	–	557,044
Over provision in respect of previous year	(2,401)	(103,923)	(2,401)	(103,923)
	(2,401)	453,121	(2,401)	453,121

22 Income tax expense →

Accounting Policy →

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Taxable profit is determined in accordance with the provisions of Inland Revenue Act No 24 of 2017.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused 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 used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. 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 realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

22.1 Amount recognised in income statement

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Current tax expense				
Current year	1,389,508	1,362,295	1,476,304	1,441,255
Change in estimates related to prior years	(127,252)	(173,014)	(130,612)	(174,133)
	1,262,256	1,189,281	1,345,692	1,267,122
Dividend tax deducted at source on dividends received from subsidiaries/equity accounted investments	–	–	–	12,402
Economics service charge write off	–	–	–	257
	1,262,256	1,189,281	1,345,692	1,279,781
Deferred tax expense				
Reversal of deferred tax liability (Note 41.1)	(184,386)	(118,076)	(181,029)	(111,824)
Origination of deferred tax asset (Note 41.2)	(67,465)	(155,808)	(67,562)	(159,811)
	(251,851)	(273,884)	(248,591)	(271,635)
Tax expense on continuing operations	1,010,405	915,397	1,097,101	1,008,146

The Group has considered the relevant provisions of the Inland Revenue Act No. 24 of 2017 which came into effect from 1 April 2018, when computing the current and deferred tax assets/liabilities.

As per the announcement dated 12 February 2020, income tax rate applicable for the Banking sector has been reduced to 24% with effect from 1 January 2020. However, as the said amendment is yet to be enacted income tax was calculated at the rate of 28% for the year ended 31 December 2020. Had the Bank considered the revised rate of 24%, the income tax charge recognised in the income statement would have been decreased by 181 Mn.

22.2 Amount recognised in OCI

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Items that are or may be reclassified subsequently to income statement				
Movement in fair value reserve [fair value through other comprehensive income (FVTOCI) debt instruments]	(777,396)	(591,758)	(777,396)	(591,758)
Cash flow hedges – Cross currency swap	(503)	111,050	(503)	111,050
	(777,899)	(480,708)	(777,899)	(480,708)
Items that will not be reclassified to income statement				
Gain on remeasurements of defined benefit liability	(26,297)	23,716	(26,322)	23,674
	(26,297)	23,716	(26,322)	23,674
Total deferred tax expense recognised in OCI	(804,196)	(456,992)	(804,221)	(457,034)

Notes to the Financial Statements

22.3 Reconciliation of effective tax rate with income tax rate

For the year ended 31 December	BANK				GROUP			
	2020		2019		2020		2019	
	%	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000
Tax using 28% tax rate on profit before tax (PBT)	28.00	951,563	28.00	836,994	28.00	1,104,288	28.00	926,363
Adjustment in respect of current income tax of prior periods	(3.74)	(127,252)	(5.79)	(173,014)	(3.31)	(130,612)	(5.26)	(174,133)
Non-deductible expenses	80.72	2,743,375	50.57	1,511,553	69.95	2,758,557	45.95	1,520,103
Allowable deductions	(69.04)	(2,346,260)	(35.71)	(1,067,439)	(59.75)	(2,356,333)	(32.66)	(1,080,626)
Dividend income	(7.27)	(247,187)	(6.24)	(186,661)	(6.27)	(247,187)	(5.64)	(186,661)
Tax incentives	(1.84)	(62,465)	4.41	131,832	(1.58)	(62,465)	3.98	131,832
Taxable timing difference from capital allowances on assets	6.77	229,956	4.55	136,016	5.83	229,956	4.11	136,016
Tax losses from prior year	-	-	-	-	(0.08)	(3,064)	(0.17)	(5,772)
Taxed at different rates	3.55	120,526	-	-	1.33	52,552	-	-
Withholding tax on dividend received	-	-	-	-	-	-	0.37	12,402
Adjustments	-	-	-	-	-	-	0.01	257
Current tax expense	37.15	1,262,256	39.79	1,189,281	34.12	1,345,692	38.69	1,279,781

23 Earnings per share →

Accounting Policy →

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

23.1 Basic earnings per share

For the year ended 31 December	BANK		GROUP	
	2020	2019	2020	2019
Profit attributable to equity holders of the Bank (LKR '000)	2,388,035	2,073,868	2,744,961	2,213,529
Weighted average number of ordinary shares (Note 23.2)	305,130,164	290,373,009	305,130,164	290,373,009
Basic earnings per ordinary share – LKR	7.83	7.14	9.00	7.62

23.2 Weighted average number of ordinary shares for basic earnings per share

As at 31 December	Outstanding number of shares		Weighted average number of shares	
	2020	2019	2020	2019
Number of shares in issue at beginning	304,188,756	265,097,688	304,188,756	265,097,688
Number of shares exercised in the form of Rights Issue	-	39,091,068	-	25,275,321
Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2019	1,808,494	-	941,408	-
Weighted average number of ordinary share for basic earnings per ordinary share calculation	305,997,250	304,188,756	305,130,164	290,373,009

23.3 Diluted earnings per share

There was no dilution of ordinary shares outstanding. Therefore, diluted earnings per share is the same as basic earnings per share as shown in Note 23.1

24 Dividend per share →

The Board of Directors of the Bank has recommended the payment of a first and final dividend of LKR 3.00 per share which is to be satisfied in the form of allotment of new ordinary shares for the year ended 31 December 2020. (The Bank approved a final dividend of LKR 3.00 per share for the year ended 31 December 2019 and this was satisfied in the form of cash and allotment of new ordinary shares).

For the year ended 31 December	BANK	
	2020	2019
Dividend per share (LKR)	3.00	3.00

Compliance with Section 56 and 57 of Companies Act No. 07 of 2007

As required by Section 56 of the Companies Act No. 07 of 2007 the Board of Directors of the Bank satisfied the solvency test in accordance with Section 57, subject to relevant regulatory adherence, prior to declaring the final dividend. A statement of solvency duly completed and signed by the Directors on 17 February 2021 have been audited by Messrs KPMG.

Dividend paid during the year

For the year ended 31 December	BANK	
	2020	2019
First and final dividend for 2019 – LKR 2.50 per share (2018 – LKR 3.50 per share)	760,472	927,841

Notes to the Financial Statements

25 Classification of financial assets and financial liabilities →

See accounting policies in Notes 5.3.

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

As at 31 December 2020	Note	Bank			Total LKR '000
		Fair value through profit or loss – Mandatory LKR '000	Fair value through other comprehensive income LKR '000	Amortised cost LKR '000	
Financial assets					
Cash and cash equivalents	26	–	–	7,724,364	7,724,364
Balances with Central Bank of Sri Lanka	27	–	–	4,901,753	4,901,753
Placements with banks	28	–	–	15,414,287	15,414,287
Derivatives financial assets	29	835,464	–	–	835,464
Financial assets measured at fair value through profit or loss	30	609,717	–	–	609,717
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	4,152,717	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	301,909,337	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	–	–	31,604,175	31,604,175
Financial assets measured at fair value through other comprehensive income	34	–	88,718,002	–	88,718,002
Other assets	42	–	–	1,999,405	1,999,405
Total financial assets		1,445,181	88,718,002	367,706,038	457,869,221

As at 31 December 2020	Note	Bank			Total LKR '000
		Fair value through profit or loss – Mandatory LKR '000	Fair value through other comprehensive income LKR '000	Amortised cost LKR '000	
Financial liabilities					
Due to banks	44	–	–	14,909,937	14,909,937
Derivatives financial liabilities	29	267,883	–	–	267,883
Financial liabilities at amortised cost – Due to depositors	45	–	–	310,026,892	310,026,892
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	46,847,076	46,847,076
Debt securities in issue	47	–	–	16,291,279	16,291,279
Other liabilities	50	–	–	4,783,877	4,783,877
Subordinated term debt	51	–	–	19,357,497	19,357,497
Total financial liabilities		267,883	–	412,216,558	412,484,441

Notes to the Financial Statements

As at 31 December 2019	Note	Bank			Total LKR '000
		Fair value through profit or loss – Mandatory LKR '000	Fair value through other comprehensive income LKR '000	Amortised cost LKR '000	
Financial assets					
Cash and cash equivalents	26	–	–	5,450,209	5,450,209
Balances with Central Bank of Sri Lanka	27	–	–	8,666,547	8,666,547
Placements with banks	28	–	–	165,030	165,030
Derivative financial assets	29	631,438	–	–	631,438
Financial assets measured at fair value through profit or loss	30	5,307,066	–	–	5,307,066
Financial assets at amortised cost –					
Loans to and receivables from other customers	32	–	–	272,818,311	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	–	–	30,147,032	30,147,032
Financial assets measured at fair value through other comprehensive income	34	–	72,716,407	–	72,716,407
Other assets	42	–	–	2,148,567	2,148,567
Total financial assets		5,938,504	72,716,407	319,395,696	398,050,607
Financial liabilities					
Due to banks	44	–	–	24,594,828	24,594,828
Derivative financial liabilities	29	518,731	–	–	518,731
Financial liabilities at amortised cost – Due to depositors	45	–	–	247,786,974	247,786,974
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,307,556	47,307,556
Debt securities in issue	47	–	–	14,148,198	14,148,198
Other liabilities	50	–	–	3,786,445	3,786,445
Subordinated term debt	51	–	–	16,859,914	16,859,914
Total financial liabilities		518,731	–	354,483,915	355,002,646

Notes to the Financial Statements

As at 31 December 2020	Note	Group			
		Fair value through profit or loss – Mandatory	Fair value through other comprehensive income	Amortised cost	Total
		LKR '000	LKR '000	LKR '000	LKR '000
Financial assets					
Cash and cash equivalents	26	-	-	7,728,969	7,728,969
Balances with Central Bank of Sri Lanka	27	-	-	4,901,753	4,901,753
Placements with banks	28	-	-	15,431,962	15,431,962
Derivative financial assets	29	835,464	-	-	835,464
Financial assets measured at fair value through profit or loss	30	609,717	-	-	609,717
Financial assets at amortised cost – Loans to and receivables from banks	31	-	-	4,152,717	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	-	-	301,909,337	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	-	-	31,604,175	31,604,175
Financial assets measured at fair value through other comprehensive income	34	-	88,718,002	-	88,718,002
Other assets	42	-	-	2,066,621	2,066,621
Total financial assets		1,445,181	88,718,002	367,795,534	457,958,717
Financial liabilities					
Due to banks	44	-	-	14,909,937	14,909,937
Derivative financial liabilities	29	267,883	-	-	267,883
Financial liabilities at amortised cost – Due to depositors	45	-	-	309,566,423	309,566,423
Financial liabilities at amortised cost – Due to other borrowers	46	-	-	46,847,076	46,847,076
Debt securities in issue	47	-	-	16,291,279	16,291,279
Other liabilities	50	-	-	4,900,983	4,900,983
Subordinated term debt	51	-	-	19,357,497	19,357,497
Total financial liabilities		267,883	-	411,873,195	412,141,078

Notes to the Financial Statements

As at 31 December 2019	Note	Group			
		Fair value through profit or loss – Mandatory LKR '000	Fair value through other comprehensive income LKR '000	Amortised cost LKR '000	Total LKR '000
Financial assets					
Cash and cash equivalents	26	–	–	5,459,359	5,459,359
Balances with Central Bank of Sri Lanka	27	–	–	8,666,547	8,666,547
Placements with banks	28	–	–	200,441	200,441
Derivative financial assets	29	631,438	–	–	631,438
Financial assets measured at fair value through profit or loss	30	5,307,066	–	–	5,307,066
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	272,818,311	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	–	–	30,147,032	30,147,032
Financial assets measured at fair value through other comprehensive income	34	–	72,716,407	–	72,716,407
Other assets	42	–	–	2,238,053	2,238,053
Total financial assets		5,938,504	72,716,407	319,529,743	398,184,654
Financial liabilities					
Due to banks	44	–	–	24,594,828	24,594,828
Derivative financial liabilities	29	518,731	–	–	518,731
Financial liabilities at amortised cost – Due to depositors	45	–	–	247,457,696	247,457,696
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,307,556	47,307,556
Debt securities in issue	47	–	–	14,148,198	14,148,198
Other liabilities	50	–	–	3,907,977	3,907,977
Subordinated term debt	51	–	–	16,859,914	16,859,914
Total financial liabilities		518,731	–	354,276,169	354,794,900

26 Cash and cash equivalents →

Accounting Policy →

Cash and cash equivalents include cash in hand, demand placements with banks and highly liquid financial assets with original maturities within three months or less from the date of acquisition that are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments. These items are brought to financial statements at face values or the gross values, where appropriate.

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

Statement of cash flows

The Statement of Cash Flows has been prepared by using the “Direct Method” of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on “Statement of Cash Flows”. A reconciliation of the profit for the year to net cash flows used in operating activities is also presented for comparability.

Notes to the Financial Statements

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cash in hand	4,865,815	4,565,648	4,866,081	4,565,932
Balances with banks	2,858,549	884,561	2,862,888	893,427
	7,724,364	5,450,209	7,728,969	5,459,359

26.1 Analysis by currency

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cash in hand	4,865,815	4,565,648	4,866,081	4,565,932
Held in local currency	4,829,247	4,523,367	4,829,513	4,523,651
Held in foreign currency	36,568	42,281	36,568	42,281
Balances with Banks	2,858,549	884,561	2,862,888	893,427
Local Banks	-	35	3,138	8,901
Foreign Banks	2,858,549	884,526	2,859,750	884,526
	7,724,364	5,450,209	7,728,969	5,459,359

27 Balances with Central Bank of Sri Lanka →

Accounting Policy →

Balances with Central Banks are carried at amortised cost in the statement of financial position.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Statutory balances with Central Bank of Sri Lanka	4,901,753	8,666,547	4,901,753	8,666,547

As required by the provisions of Section 93 of Monetary Law Act, a minimum cash balance is maintained with the Central Bank of Sri Lanka. The minimum cash reserve requirement on rupee deposit liabilities is prescribed as a percentage of rupee deposit liabilities. The percentage is varied from time to time. Applicable minimum rate was

4% with effect from 16 March 2020 and 2% with effect from 16 June 2020 (Minimum rate was 5% with effect from 1 March 2019). There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

28 Placements with banks →

See accounting policies in Notes 5.3.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Central Bank of Sri Lanka	13,226,633	165,030	13,226,633	165,030
Bank of Ceylon	2,000,249	–	2,000,249	–
Union Bank of Colombo	187,405	–	187,405	–
Commercial Bank of Ceylon PLC	–	–	17,675	35,411
Total	15,414,287	165,030	15,431,962	200,441

29 Derivative Financial assets/liabilities →**Accounting Policy** →

Derivative assets held-for-risk management purposes include all derivative assets that are not classified as trading assets and are measured at fair value in the Statement of Financial Position.

Policy applicable generally to hedging relationships

Up to 1 January 2018 the Bank has not designated any derivative held-for-risk management purposes as a qualifying hedge relationship and therefore the Bank has not adopted hedge accounting. However from 1 January 2018 the Bank has applied hedge accounting principles of SLFRS 9 on financial instruments.

The Group designates certain derivatives held-for-risk management as well as certain non derivative financial instruments as hedging instruments in qualifying hedging relationships.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 – 125%. For a cash flow hedge of a forecast transaction, the Group makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Notes to the Financial Statements

29.1 Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from OCI to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the income statement and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a Central Counterparty (CCP) by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight line basis.

The Bank uses cross currency swaps (CCS) to hedge the interest rate risk and exchange rate risk arising from a floating rate borrowing denominated in foreign currencies. The hedging relationship is designated as cash flow hedge since the Bank is expecting to hedge the variability arise by the interest rate risk and exchange rate risk, where the USD borrowing can be identified as the hedged item, the CCS can be identified as the hedge instrument and interest rate risk and exchange rate risk can be identified as the hedged risk.

Derivatives are classified as assets, when their fair value is positive or as liabilities, when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset, if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

29.2 Fair value hedge of foreign exchange risk

The Bank hedge the risk of variation in fair value of foreign currency denominated loans using foreign currency forwards from 1 January 2019. The risk management strategy is to use the foreign currency variability (gains/ losses) arising because of revaluation of the foreign currency forwards attributable to change in the spot foreign exchange rates to off-set the variability, due to foreign exchange rate movements, in the value of USD denominated loans.

The hedged risk is the USD/LKR foreign exchange risk in the LKR conversion of USD denominated long-term liabilities. USD denominated long-term liabilities are designated as hedge item and forward contract that maturity match with the tenure considered as hedge instrument.

The Group's approach to managing market risk, including foreign exchange risk, is discussed in Note 8.4. The Group's exposure to foreign exchange risk is disclosed in Note 8.4.5.

By using derivative financial instruments to hedge exposures to changes in exchange rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Group minimises counterparty credit risk in derivative instruments by entering into transactions with high-reputed counterparties.

Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks.

Under the Group policy, in order to conclude that a hedging relationship is effective, all the required criteria should be met

29.3 Other non-trading derivatives

Other non-trading derivatives are recognised on balance sheet at fair value. If a derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

29.4 Derivative financial assets/liabilities

The following table describes the fair values of derivatives held-for-risk management purposes by type of instrument:

29.4.1 Assets

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Instrument type				
Interest rate and foreign exchange				
Cross currency swaps	527,877	510,660	527,877	510,660
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	276,665	108,069	276,665	108,069
– Other	30,922	12,709	30,922	12,709
	835,464	631,438	835,464	631,438

29.4.2 Liabilities

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Instrument type				
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	239,805	492,283	239,805	492,283
– Other	28,078	26,448	28,078	26,448
	267,883	518,731	267,883	518,731

29.4.3 Fair value hedge

The amount relating to items designated as hedging instruments and hedge effectiveness at 31 December 2020 were as follow:

	Asset LKR '000	Line item in the statement of financial position	Amount set off in the income statements LKR '000
Foreign currency risk			
Hedge of foreign exchange risk arising from foreign currency denominated long term liabilities using FX forwards	17,789,536	Derivative assets (liabilities) held-for-risk management purposes	980,827

Notes to the Financial Statements

The amount relating to items designated as hedging instruments and hedge effectiveness at 31 December 2019 were as follow:

	Asset LKR '000	Line item in the statement of financial position	Amount set off in the income statements LKR '000
Foreign currency risk			
Hedge of foreign exchange risk arising from foreign currency denominated long term liabilities using FX forwards	25,004,743	Derivative assets (liabilities) held-for-risk management purposes	212,822

The amount relating to items designated as hedged items at 31 December 2020 were as follow:

Line item in the statement of financial position in which the hedged items is included	Carrying amount of liability LKR '000	Amount set off in the income statement LKR '000
Due to other customers	9,039,056	406,528
Due to other borrowings	8,750,480	574,299
	17,789,536	980,827

The amount relating to items designated as hedged items at 31 December 2019 were as follow:

Line item in the statement of financial position in which the hedged items is included	Carrying amount of liability LKR '000	Amount set off in the income statement LKR '000
Due to other customers	12,299,247	58,631
Due to other borrowings	12,705,496	154,191
	25,004,743	212,822

Following table summarises the impact on the line items in income statement.

For the year ended 31 December 2020	Balance before the hedging adjustment LKR '000	Hedging adjustment LKR '000	Balance after the hedging adjustment LKR '000
Foreign exchange gain/(loss) (Note 16)	(957,535)	980,827	23,292
Forward exchange fair value changes – Contracts with commercial banks (Note 14)	437,658	(980,827)	(543,169)

For the year ended 31 December 2019	Balance before the hedging adjustment LKR '000	Hedging adjustment LKR '000	Balance after the hedging adjustment LKR '000
Foreign exchange gain/(loss) (Note 16)	687,025	(212,822)	474,203
Forward exchange fair value changes – Contracts with commercial banks (Note 14)	(2,791,000)	212,822	(2,578,178)

30 Financial assets measured at fair value through profit or loss →

Accounting Policy →

See accounting policies in Notes 5.3.

Financial assets measured at FVTPL are measured initially at fair value and subsequently recorded in the statement of financial position at fair value. Changes in fair value are recognised in income statement.

As at 31 December	Note	BANK		GROUP	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Quoted equity securities	30.1	44,880	4,777,423	44,880	4,777,423
Quoted units in Unit Trust	30.2	3,740	3,740	3,740	3,740
Unquoted units in Unit Trust	30.3	561,097	525,903	561,097	525,903
		609,717	5,307,066	609,717	5,307,066

30.1 Quoted equity securities – Bank/Group

As at 31 December	2020			2019		
	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
John Keells Holdings PLC	300,000	33,811	44,880	–	–	–
Commercial Bank of Ceylon PLC – voting	–	–	–	47,628,006	1,931,775	4,524,661
Tokyo Cement Company (Lanka) PLC – voting	–	–	–	700,000	26,235	33,600
Tokyo Cement Company (Lanka) PLC – Non-voting	–	–	–	300,000	10,623	11,760
Chevron Lubricants Lanka PLC	–	–	–	400,000	26,137	29,960
Piramal Glass Ceylon PLC	–	–	–	2,015,904	7,540	9,072
Dialog Axiata PLC	–	–	–	1,235,357	13,117	15,195
Access Engineering PLC	–	–	–	330,062	5,908	7,195
Aitken Spence PLC	–	–	–	500,000	24,430	23,250
ACL Cables PLC	–	–	–	655,299	37,252	37,680
Teejay Lanka PLC	–	–	–	1,000,000	44,668	40,800
Royal Ceramics Lanka PLC	–	–	–	500,000	37,276	44,250
		33,811	44,880		2,164,961	4,777,423

*Cost is reduced by write-off of diminution in value other than temporary in respect of investments.

The “Guidance Notes on Accounting Consideration of the COVID-19 Outbreak” issued by The Institute of Chartered Accountants of Sri Lanka on 11 May 2020, permitted entities to reclassify equity portfolio as an one off option, as a result of COVID-19 if an entity decides to change its business model as at 1 January 2020.

Accordingly, the Bank has reclassified the investment made in the quoted equity securities including the investment of Commercial Bank of Ceylon PLC from fair value through profit or loss to fair value through other comprehensive income with effect from 1 January 2020.

Notes to the Financial Statements

30.2 Quoted units in Unit Trust – Bank/Group

As at 31 December	2020			2019		
	Number of units	Cost * LKR '000	Fair value LKR '000	Number of units	Cost * LKR '000	Fair value LKR '000
NAMAL Acuity Value Fund	39,102	1,963	3,740	39,102	1,963	3,740
		1,963	3,740		1,963	3,740

30.3 Unquoted units in Unit Trust – Bank/Group

As at 31 December	2020			2019		
	Number of units	Cost LKR '000	Fair value LKR '000	Number of units	Cost LKR '000	Fair value LKR '000
NAMAL Growth Fund	2,125,766	251,539	270,292	2,125,766	251,539	245,608
NAMAL Income Fund	–	–	–	983,621	10,042	15,031
National Equity Fund	250,000	2,657	7,875	250,000	2,657	6,858
Guardian Acuity Equity Fund	9,052,505	150,000	164,069	9,052,505	150,000	157,275
JB Vantage Value Equity Fund	5,224,660	100,000	118,861	5,224,660	100,000	101,131
		504,196	561,097	–	514,238	525,903

Refer Note 9.3.1 for valuation techniques and significant unobservable inputs.

31 Financial assets at amortised cost – Loans to and receivables from banks →

Accounting Policy →

See accounting policies in Notes 5.3 and 17.

“Financial assets at amortised cost – Loans and advances to banks” include amounts due from banks.

As per SLFRS 9, Loans and advances to banks are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement, loans and receivables to banks are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Group designates at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in “Interest income” while the losses arising from impairment are recognised in “Impairment charges and other losses” in the income statement.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Gross loans and receivables	4,152,717	–	4,152,717	–

31.1 Analysis

31.1.1 By product

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Securities purchased under resale agreements	4,152,717	–
Gross loans and receivables	4,152,717	–

31.1.2 By currency

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Sri Lankan rupee	4,152,717	–
Gross loans and receivables	4,152,717	–

32 Financial assets at amortised cost – Loans to and receivables from other customers →

Accounting Policy →

See accounting policies in Notes 5.3 and 17.

Loans to and receivables from other customers include loans and advances and lease receivables of the Group.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Loans and receivables from other customers are normally written off, either partially or in full, when there is no realistic prospect of recovery and all possible steps have been executed in recovering dues. Where loans are secured, this is generally after receipt of any proceeds from the realisation of the security. If the write-off is later recovered, the recovery is credited to "Net other operating income".

Notes to the Financial Statements

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Gross loans and receivables	317,232,613	285,224,793	317,232,613	285,224,793
Allowance for impairment (Note 32.1.4)	(15,323,276)	(12,406,482)	(15,323,276)	(12,406,482)
Net loans and receivables	301,909,337	272,818,311	301,909,337	272,818,311
Gross loans and receivables				
Stage 1	250,718,437	224,020,849	250,718,437	224,020,849
Stage 2	42,152,186	37,368,923	42,152,186	37,368,923
Stage 3	24,361,990	23,835,021	24,361,990	23,835,021
	317,232,613	285,224,793	317,232,613	285,224,793

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Allowance for impairment				
Stage 1	1,305,740	901,871	1,305,740	901,871
Stage 2	1,065,570	1,563,877	1,065,570	1,563,877
Stage 3	12,951,966	9,940,734	12,951,966	9,940,734
	15,323,276	12,406,482	15,323,276	12,406,482
Net loans and receivables	301,909,337	272,818,311	301,909,337	272,818,311

32.1 Analysis

32.1.1 By product

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Overdrafts	36,812,262	41,691,542	36,812,262	41,691,542
Trade finance	30,342,162	35,637,646	30,342,162	35,637,646
Lease rentals receivable (Note 32.1.1.1)	25,127,338	22,173,952	25,127,338	22,173,952
Credit cards	2,199,543	1,448,853	2,199,543	1,448,853
Pawning	4,565,645	3,620,611	4,565,645	3,620,611
Staff loans	2,491,323	2,096,715	2,491,323	2,096,715
Term loans	213,617,752	176,290,391	213,617,752	176,290,391
Commercial papers and asset back notes	2,076,588	2,227,583	2,076,588	2,227,583
Preference shares unquoted	-	37,500	-	37,500
Gross loans and receivables	317,232,613	285,224,793	317,232,613	285,224,793

COVID-19 Repayment deferral packages offered to customers

The Bank has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations since March 2020, based on the guidelines given by Central Bank of Sri Lanka and Bank's own initiatives. Refer to Key Judgements and Estimates in this Note for details of the

impact of deferrals when determining if there has been a Significant Increase in Credit Risk (SICR).

The loan repayment deferral package/moratorium is considered to be a loan modification under SLFRS 9. In addition the Bank offered working capital loan arrangements under concessionary rates as per the circulars issues by Central Bank of Sri Lanka (CBSL).

32.1.1.1 Lease rentals receivable

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Gross investment in leases:				
Lease rentals receivable				
– within one year	12,215,465	11,037,691	12,215,465	11,037,691
– within one to five years	18,476,263	16,323,550	18,476,263	16,323,550
	30,691,728	27,361,241	30,691,728	27,361,241
Less: Deposit of rentals	11,676	14,057	11,676	14,057
Unearned income on rentals receivable				
– within one year	2,675,561	2,579,963	2,675,561	2,579,963
– within one to five years	2,877,153	2,593,269	2,877,153	2,593,269
	25,127,338	22,173,952	25,127,338	22,173,952

32.1.2 By currency

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lankan Rupee	278,775,496	250,669,907	278,775,496	250,669,907
United States Dollar	37,443,007	33,678,971	37,443,007	33,678,971
Great Britain Pound	652,137	662,214	652,137	662,214
Australian Dollar	91,191	36,797	91,191	36,797
Euro	270,782	176,904	270,782	176,904
Gross loans and receivables	317,232,613	285,224,793	317,232,613	285,224,793

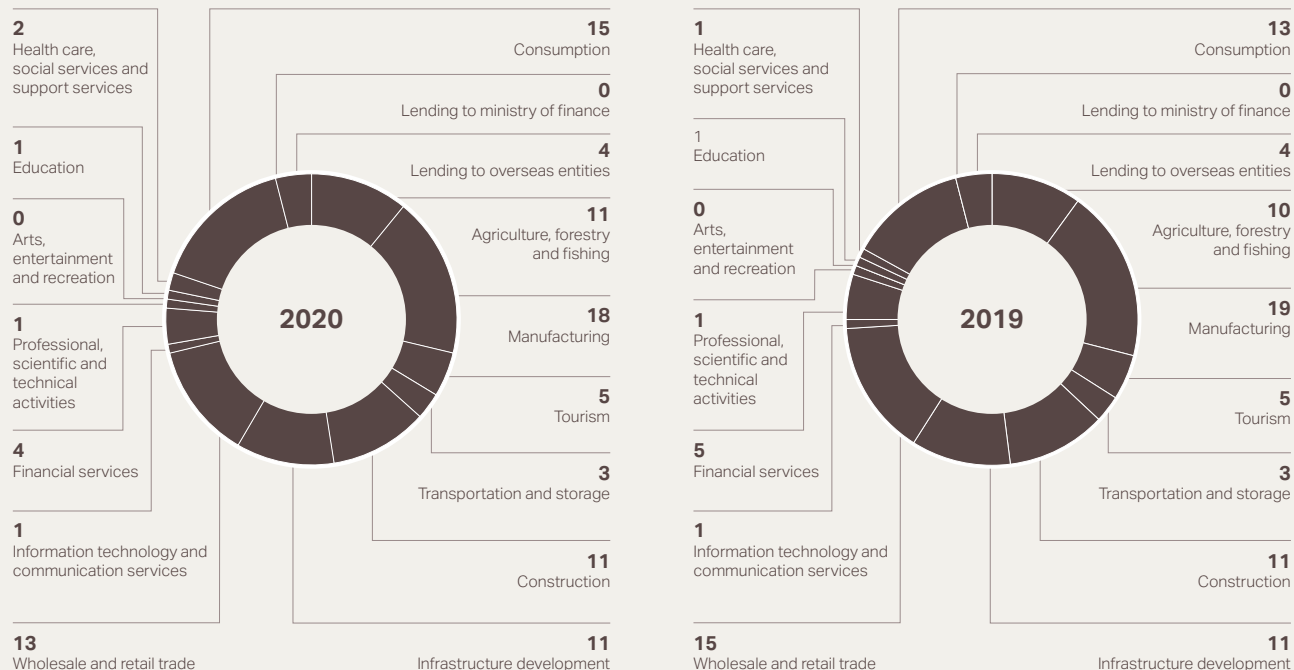
Notes to the Financial Statements

32.1.3 By industry

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Agriculture, forestry, and fishing	34,483,557	28,282,969	34,483,557	28,282,969
Manufacturing	55,769,741	54,535,325	55,769,741	54,535,325
Tourism	15,990,359	13,393,587	15,990,359	13,393,587
Transportation and storage	9,108,654	9,434,389	9,108,654	9,434,389
Construction	34,175,044	32,559,866	34,175,044	32,559,866
Infrastructure development	34,465,896	30,024,078	34,465,896	30,024,078
Wholesale and retail trade	41,871,504	44,195,272	41,871,504	44,195,272
Information technology and communication services	1,712,933	1,531,401	1,712,933	1,531,401
Financial services	13,286,037	14,856,831	13,286,037	14,856,831
Professional, scientific, and technical activities	3,203,777	1,709,325	3,203,777	1,709,325
Arts, entertainment, and recreation	756,676	788,364	756,676	788,364
Education	3,751,677	1,471,284	3,751,677	1,471,284
Healthcare, social services, and support services	6,077,955	4,213,504	6,077,955	4,213,504
Consumption	50,166,516	36,783,616	50,166,516	36,783,616
Lending to Ministry of Finance	33,923	164,257	33,923	164,257
Lending to overseas entities	12,378,364	11,280,725	12,378,364	11,280,725
Gross loans and receivables	317,232,613	285,224,793	317,232,613	285,224,793

Analysis by industry

%



32.1.4 Movements in impairment during the year

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Stage 1		
Balance at beginning	901,871	786,161
Charge to income statement	404,581	116,321
Write-off during the year	(712)	(611)
Balance as at 31 December	1,305,740	901,871
Stage 2		
Balance at beginning	1,563,877	2,355,958
Write back to income statement	(494,452)	(790,380)
Write-off during the year	(3,855)	(1,701)
Balance as at 31 December	1,065,570	1,563,877
Stage 3		
Balance at beginning	9,940,734	8,423,457
Charge to income statement	3,030,682	2,264,451
Effect of foreign currency movement	44,441	9,475
Write-off during the year	(27,398)	(741,068)
Other movements	(36,493)	(15,581)
Balance as at 31 December	12,951,966	9,940,734
Total impairment	15,323,276	12,406,482

Key judgements and estimates

In estimating collectively assessed ECL, the Bank makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Group's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions used by the Bank in relation to the ECL model inputs, the interdependencies between those inputs, and highlights the significant changes during the current year.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the economy. Accordingly, the Bank's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Notes to the Financial Statements

Judgement/Assumption	Description	Considerations for the year ended 31 December 2020
Determining when a Significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from "Stage 1" to "Stage 2". This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses.	In response to the impacts of COVID-19, various moratorium/ debt concessionary schemes have been offered to eligible customers. The Bank does not consider that when a customer is first provided assistance it automatically results in a Significant Increase in Credit Risk (SICR) and a consequent impact on ECL when assessing provisions. Subsequent to take-up, assessments have been carried out based on the discussions with the customers on the future business cashflows, financial position, the sectors in which the businesses operate, and ability to recommence loan repayments at the end of the moratorium/debt concessionary period to conclude whether there is a SICR.
Measuring both 12-month and lifetime credit losses	The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity. In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	The PD, EAD and LGD models are subject to the Bank's policy on impairment model that stipulates periodic model monitoring, periodic revalidation and the approval procedures and authorities according to model materiality. There were no material changes to the policies during the year ended 31 December 2020. Due to the implications of moratorium/ debt concessionary schemes on PDs and LDGs (due to limited movements to Stage 2 & 3), adjustments have been made as overlays based on stress testing and historic patterns to better reflect the adequacy of ECL. There were no material changes to behavioural lifetime estimates during the year ended 31 December 2020.
Base case economic forecast	The Bank derives a forward-looking "base case" economic scenario which reflects the Bank's view of the most likely future macro-economic conditions.	There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year. As at 31 December 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19 by using the economic forecast.
Probability weighting of each economic scenario (base case, best and worst scenarios)	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the worst scenario given the Bank's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to Group's lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised. The uncertainty associated with the COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular for risk elevated sectors identified by the Bank.

33 Financial assets at amortised cost – Debt and other instruments →**Accounting Policy** →

See accounting policies in Notes 5.3 and 17.

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

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

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Sri Lanka Government Securities		
Treasury Bills – unencumbered	–	968,754
Treasury Bonds – unencumbered	17,505,660	17,683,437
Sri Lanka developments bonds	7,596,484	8,485,034
Sri Lanka sovereign bonds – unencumbered	6,111,605	–
Other Investments		
Quoted debentures (Note 33.1)	661,941	3,092,378
Accumulated impairment under Stage 1 (Note 33.3)	(271,515)	(82,571)
Total	31,604,175	30,147,032

33.1 Quoted debentures Bank/Group

As at 31 December	2020		2019	
	Number of debentures	Amortised cost of investment LKR '000	Number of debentures	Cost of investment LKR '000
Access Engineering PLC	–	–	2,500,000	252,953
Commercial Credit & Finance PLC	–	–	4,500,000	450,000
LB Finance PLC	1,155,200	116,344	1,155,200	116,342
People's Leasing & Finance PLC	2,500,000	272,217	12,500,000	1,285,231
Senkadagala Finance PLC	–	–	3,650,000	371,962
Singer Finance (Lanka) PLC	2,500,000	273,380	2,500,000	256,960
Vallibel Finance PLC	–	–	3,500,000	358,930
Total investments in quoted debentures – Bank/Group		661,941		3,092,378

Notes to the Financial Statements

33.2 Quoted debentures – By collateralisation

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Pledged as collateral	308,951	43,883
Unencumbered	352,990	3,048,495
	661,941	3,092,378

33.3 Movement in impairment during the year

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Stage 1		
Balance at beginning	82,571	45,414
Transferred from FVOCI during the year (Note 34.7)	67,231	–
Charge to income statement	121,713	37,157
Balance as at 31 December	271,515	82,571

34 Financial assets measured at fair value through other comprehensive income →

Accounting Policy →

See accounting policies in Notes 5.3 and 17.

A financial asset is measured at fair value through other comprehensive income (FVOCI) only if it meets both of the following conditions and is not designated as FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- On initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment by investment basis.

Notes to the Financial Statements

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Government securities*				
Treasury Bills (Note 34.5)	13,169,467	4,813,939	13,169,467	4,813,939
Treasury Bonds (Note 34.6)	62,102,967	54,770,406	62,102,967	54,770,406
Sri Lanka development bonds – unencumbered**	–	1,857,951	–	1,857,951
Sri Lanka sovereign bonds – unencumbered**	931,706	2,260,552	931,706	2,260,552
	76,204,140	63,702,848	76,204,140	63,702,848
Equity securities				
Quoted (Note 34.1)	12,299,552	8,812,702	12,299,552	8,812,702
Unquoted (Note 34.2)	213,810	200,357	213,810	200,357
Preference shares (Note 34.3)	500	500	500	500
	12,513,862	9,013,559	12,513,862	9,013,559
Total	88,718,002	72,716,407	88,718,002	72,716,407

* Government securities include impairment allowance of LKR 20.85 Mn as at 31 December 2020 (LKR 14.39 Mn as at December 2019) Movement in impairment during the year is given in Note 34.7.

** As per the Guidance Notes on Accounting Consideration of the COVID-19 Outbreak" issued by The Institute of Chartered Accountants of Sri Lanka on 11 May 2020, the Bank has reclassified the investment made in Sovereign Bond and Sri Lanka Development Bond from fair value through other comprehensive income to amortized cost with effect from 1 April 2020.

34.1 Quoted ordinary shares

As at 31 December	2020			2019		
	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC – Voting	133,233,726	8,133,658	10,778,608	82,560,377	3,348,620	7,843,236
Commercial Bank of Ceylon PLC – Non-voting	274,108	22,239	19,215	267,187	21,705	22,177
National Development Bank PLC	3,168,904	480,711	247,491	3,021,280	465,605	302,128
		8,636,608	11,045,314		3,835,930	8,167,541
Chemicals and pharmaceuticals						
Chemical Industries (Colombo) PLC – Voting	247,900	14,131	45,192	247,900	14,131	14,874
Chemical Industries (Colombo) PLC – Non-voting	389,400	15,577	59,033	389,400	15,577	18,535
		29,708	104,225		29,708	33,409
Construction and Engineering						
Access Engineering PLC	1,500,000	37,616	36,900	1,134,753	17,826	24,738
Colombo Dockyard PLC	160,000	12,160	13,648	160,000	12,160	9,920
		49,776	50,548		29,986	34,658
Diversified Holdings						
Carson Cumberbatch PLC	–	–	–	46,967	7,745	8,924
Hayleys PLC	7,333	2,225	3,040	7,333	2,225	1,283
Hemas Holdings PLC	1,427,599	99,383	142,617	927,599	59,946	74,208
John Keells Holdings PLC	601,482	77,245	89,982	521,482	66,947	87,400
Melstacorp PLC	2,069,940	90,053	107,637	2,069,940	90,053	90,042
Richard Pieris & Co. PLC	–	–	–	1,233,948	11,907	14,561
		268,906	343,276		238,823	276,418

Notes to the Financial Statements

As at 31 December	2020			2019		
	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
Healthcare						
Asiri Hospital Holdings PLC	-	-	-	1,500,000	31,094	30,000
Hotels and Travels						
Dolphin Hotels PLC	93,900	906	2,479	93,900	906	2,301
Investment Trusts						
Ceylon Guardian Investment Trust PLC	152,308	5,918	19,389	152,308	5,918	13,906
Ceylon Investment PLC	293,783	9,645	21,828	288,309	9,428	14,848
		15,563	41,217		15,346	28,754
Telecommunications						
Dialog Axiata PLC	4,000,000	37,482	49,600	4,050,000	38,405	49,815
Manufacturing						
ACL Cables PLC	790,000	45,270	60,514	40,000	2,278	2,300
Ceylon Grain Elevators PLC	148,997	9,197	16,539	148,997	9,197	10,205
Chevron Lubricants Lanka PLC	411,628	20,505	44,456	761,628	27,907	57,046
Kelani Tyres PLC	25,000	1,513	2,163	75,000	4,538	3,720
Piramal Glass Ceylon PLC	-	-	-	5,000,000	14,024	22,500
Royal Ceramics Lanka PLC	20,000	1,915	3,542	139,800	16,996	12,372
Teejay Lanka PLC	1,075,000	43,941	40,850	75,000	3,141	3,060
Tokyo Cement Company (Lanka) PLC – Voting	1,570,000	97,985	119,634	120,000	5,734	5,760
Tokyo Cement Company (Lanka) PLC – Non-voting	2,522,515	88,906	172,035	1,472,515	25,759	57,723
Aitken Spence PLC	500,000	23,250	28,900	-	-	-
Hayleys Fabric PLC	3,500,000	66,404	97,300	-	-	-
Expolanka Holings PLC	2,000,000	53,523	58,000	-	-	-
		452,409	643,933		109,574	174,686
Power and Energy						
Vallibel Power Erathna PLC	2,400,000	6,400	18,960	2,400,000	6,400	15,120
Total quoted ordinary shares – Bank		9,497,758	12,299,552		4,336,172	8,812,702
Commercial Bank of Ceylon PLC – Equity adjustment**	-	1,454,863	-	-	1,454,863	-
Total quoted ordinary shares – Group		10,952,621	12,299,552		5,791,035	8,812,702

Sector classification and fair value per share are based on the list published by Colombo Stock Exchange, as at the reporting date.

* Cost is reduced by write-off of diminution in value other than temporary in respect of Investments.

** During the year 2010, the status of the investment in equity capital of Commercial Bank of Ceylon PLC changed from an associate to investment security. At the time of change, carrying value of the Group including cumulative post-acquisition reserves was considered as the cost of the investment.

34.2 Unquoted ordinary shares Bank/Group

As at 31 December	2020			2019		
	Number of ordinary shares	Cost*	Fair value	Number of ordinary shares	Cost*	Fair value
		LKR '000	LKR '000		LKR '000	LKR '000
Credit Information Bureau of Sri Lanka	9,184	918	192,708	9,184	918	181,972
Lanka Clear (Private) Limited	100,000	1,000	17,717	100,000	1,000	15,000
Lanka Financial Services Bureau Limited	200,000	2,000	-	200,000	2,000	-
Samson Reclaim Rubber Limited	116,700	-	-	116,700	-	-
Society for Worldwide Interbank Financial Telecommunication	6	3,385	3,385	6	3,385	3,385
Sun Tan Beach Resorts Limited	9,059,013	-	-	9,059,013	-	-
The Video Team (Private) Limited	30,000	-	-	30,000	-	-
Total unquoted ordinary shares		7,303	213,810		7,303	200,357

* Cost is reduced by write-off of diminution in value other than temporary in respect of Investments.

34.3 Unquoted irredeemable preference shares Bank/Group

As at 31 December	2020			2019		
	Number of preference shares	Cost	Fair value*	Number of preference shares	Cost	Fair value
		LKR '000	LKR '000		LKR '000	LKR '000
Arpico Finance Company PLC	50,000	500	500	50,000	500	500
Total investments in unquoted irredeemable preference shares		500	500		500	500

34.4 Equity securities

34.4.1 Composition*

34.4.1.1 Bank

As at 31 December	Ordinary Shares		Preference shares	Total	
	Quoted	Unquoted	Unquoted	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Performing investments	12,299,552	210,425	-	12,509,977	9,013,059
Non-performing investments	-	3,385	500	3,885	500
	12,299,552	213,810	500	12,513,862	9,013,559

Notes to the Financial Statements

34.4.1.2 Group

As at 31 December	Ordinary Shares		Preference shares	Total	
	Quoted LKR '000	Unquoted LKR '000	Unquoted LKR '000	2020 LKR '000	2019 LKR '000
Performing investments	12,299,552	210,425	–	12,509,977	9,013,059
Non-performing investments	–	3,385	500	3,885	500
	12,299,552	213,810	500	12,513,862	9,013,559

* Disclosure as per the Direction on the prudential norms for classification, valuation and operation of the Bank's investment portfolio.

34.5 Government of Sri Lanka Treasury Bills – By collateralisation

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Pledged as collateral	134,235	530,523	134,235	530,523
Unencumbered	13,035,232	4,283,416	13,035,232	4,283,416
	13,169,467	4,813,939	13,169,467	4,813,939

34.6 Government of Sri Lanka Treasury Bonds – By collateralisation

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Pledged as collateral	8,540,121	16,094,852	8,540,121	16,094,852
Unencumbered	53,562,846	38,675,554	53,562,846	38,675,554
	62,102,967	54,770,406	62,102,967	54,770,406

34.7 Movement in impairment during the year

As at 31 December	Bank/Group	
	2020 LKR '000	2019 LKR '000
Balance at beginning	14,384	–
Charge for the year	73,699	14,384
Transferred to financial assets at amortised cost (Note 33.3)	(67,231)	–
Balance as at 31 December	20,852	14,384

35 Investments in subsidiaries →

Accounting Policy →

“Subsidiaries” are entities controlled by the Group. The Group “controls” an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Bank’s investments in subsidiaries are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement, if there has been a change in the estimates used to determine the recoverable amount of the investment.

As at 31 December	Holdings	Number of shares	2020		2019	
			Cost	Market value*/ Directors' valuation	Cost	Market value/ Directors' valuation
			LKR '000	LKR '000	LKR '000	LKR '000
	%					
Unquoted						
DFCC Consulting (Pvt) Limited	100	500,000	5,000	61,255	5,000	52,731
Lanka Industrial Estates Limited	51.16	8,169,205	97,036	578,549	97,036	538,375
Synapsys Limited	100	31,216,649	135,000	121,866	135,000	113,735
			237,036	761,670	237,036	704,841
Less: Allowance for impairment (Note 35.1)			19,600	19,600	49,600	–
			217,436	742,070	187,436	704,841

35.1 Movements in impairment allowance

As at 31 December	2020 LKR '000	2019 LKR '000
Balance at beginning	49,600	70,000
Reversal to income statement	(30,000)	(20,400)
Balance as at 31 December**	19,600	49,600

*Market value is arrived by using the audited/reviewed financial statements as at the reporting date.

**Based on the internal assessment carried out, the Board was of the view that the impairment as at 31 December 2020 is adequate..

Notes to the Financial Statements

36 Investments in associate →

Accounting Policy →

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interest in associates are accounted for using the equity method. They are initially recognised at cost, which

includes transaction costs and attributable goodwill. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence ceases.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
National Asset Management Limited (ownership 30%)				
Balance at beginning	35,270	35,270	31,293	31,107
Share of profit after tax	-	-	571	1,262
Share of other comprehensive expenses	-	-	(165)	(330)
Impact on transition to SLFRS 16	-	-	-	(746)
Balance on 31 December	35,270	35,270	31,699	31,293

36.1 Summarised financial information of associate

As at 31 December	2020 LKR '000	2019 LKR '000
Percentage ownership interest (%)	30	30
Non-current assets	49,504	56,708
Current assets	81,345	67,472
Non-current liabilities	(4,319)	(10,458)
Current liabilities	(20,917)	(9,463)
Net assets (100%)	105,613	104,259
Group's share of net assets (30%)	31,684	31,278
Goodwill on acquisition	15	15
Adjusted Group's share of net assets (30%)	31,699	31,293

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Revenue	67,440	74,631
Profit after tax (100%)	1,902	4,207
Other comprehensive expenses (100%)	(548)	(1,102)
Total comprehensive income/(100%)	1,354	3,105
Group's share in profit	571	1,262
Group's share in other comprehensive expenses	(165)	(330)
Group's share in total comprehensive income	406	932
Contingent liabilities of equity-accounted investee	Nil	Nil
Capital and other commitments of equity-accounted investee	Nil	Nil

There are no restrictions on the ability of the associate to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

The Company has neither contingent liabilities nor capital and other commitments towards its associate company.

37 Investments in joint venture →

Accounting Policy →

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in the joint venture is accounted for using the equity method. They are initially recognised at cost, which includes transaction costs and attributable goodwill. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which joint control ceases.

37.1 Investments in joint venture – Bank

As at 31 December	2020 Cost of investment LKR '000	2019 Cost of investment LKR '000
Acuity Partners (Pvt) Limited (ownership 50%)	755,000	755,000
	755,000	755,000

Notes to the Financial Statements

37.2 Investment in joint venture – Group

As at 31 December	2020 LKR '000	2019 LKR '000
Share of identifiable asset and liabilities of joint venture as at the beginning of the year	2,249,804	2,142,143
Share of unrealised profit on disposal of investments	(184,688)	(184,688)
Balance at beginning	2,065,116	1,957,455
Adjustment on initial application of SLFRS 16 net of tax	–	(5,972)
Share of profit net of tax	407,214	190,019
Share of other comprehensive income/(expenses)	26,932	(920)
Change in holding – through subsidiary of joint venture	–	34
Dividend received during the year	(50,000)	(75,500)
Group's share of net assets – 50%	2,449,262	2,065,116

The following table summarises the financial information of Acuity Partners (Pvt) Limited as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Acuity Partners (Pvt) Limited.

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Percentage ownership interest (%)	50	50
Revenue	1,091,335	1,006,027
Expenses	(775,257)	(712,503)
Share of profit of equity-accounted investees	794,186	493,522
Income tax reversal/(expense)	91,969	(181,219)
Profit after tax (100%)	1,202,233	605,827
Other comprehensive income/(expenses) (100%)	107,548	(12,700)
Total comprehensive income (100%)	1,309,781	593,127
Profit attributable to equity holders	814,428	380,037
Other comprehensive income/(expenses) attributable to equity holders	53,862	(1,839)
Total comprehensive income attributable to equity holders	868,290	378,199
Group's share in profit (50%)	407,214	190,019
Group's share in other comprehensive income/(expenses) (50%)	26,931	(920)
Group's share in total comprehensive income (50%)	434,145	189,099
Current assets	7,671,324	6,225,285
Non-current assets	19,132,447	11,648,835
Current liabilities	(15,881,343)	(8,259,697)
Non-current liabilities	(2,854,630)	(2,606,618)
Net assets attributable to equity holders	5,267,899	4,499,608

As at 31 December	2020 LKR '000	2019 LKR '000
Group's share of net assets (50%) – before consolidation adjustment	2,633,950	2,249,804
Share of unrealised profit on disposal investment*	(184,688)	(184,688)
Groups share of net assets 50%	2,449,262	2,065,116
Contingent liabilities of equity-accounted investee	Nil	Nil
Capital and other commitments of equity-accounted investee	Nil	Nil

There are no restrictions on the ability of the joint venture to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

The Bank has neither contingent liabilities nor capital and other commitments towards its joint venture company.

*This to elimination of 50% of the profits on disposal of subsidiary to joint venture company during the year 2010.

38 Investment property →

Accounting Policy →

Investment property of the Bank/Group is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. The Bank/Group has chosen the cost model instead of fair value model and therefore investment property is measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

Depreciation is provided on a straight-line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal. The useful life for the current and comparative periods of significant items of investment property are as follow:

Building – 20-40 years

Land are not depreciated.

Rental income from investment property is recognised as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cost				
Balance at beginning	9,879	9,879	664,773	665,519
Acquisition	-	-	-	4,489
Transferred to property, plant and equipment	-	-	(109,543)	-
Written off during the year	-	-	-	(5,235)
Cost as at 31 December	9,879	9,879	555,230	664,773
Less: Accumulated depreciation				
Balance at beginning	-	-	197,796	168,960
Charge for the year	-	-	21,057	28,836
Transferred to property, plant and equipment	-	-	(9,480)	-
Accumulated depreciation as at 31 December	-	-	209,373	197,796
Carrying amount as at 31 December	9,879	9,879	345,857	466,977

Notes to the Financial Statements

38.1 Details of investment properties

As at 31 December 2020	Buildings sq. ft.	Extent of land perches*	Number of buildings	Cost LKR '000	Accumulated depreciation/ impairment LKR '000	Net Book value LKR '000	Fair value LKR '000	Date of valuation
4 A,4th Cross Lane, Borupana, Ratmalana	–	20.0	–	2,600	–	2,600	25,000	31 December 2020
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	93.5	–	7,279	–	7,279	88,800	20 May 2018
Bank				9,879	–	9,879	113,800	
Pattiwila Road, Sapugaskanda, Makola	482,150	21,920	18	545,351	209,373	335,978	5,413,750	31 March 2019
Group				555,230	209,373	345,857	5,527,550	

*1 perch – 25.2929 m²; 1 Sq.ft = 0.0929 m²

The fair value of investment property as at 31 December 2020 situated at Pattiwila Road, Sapugaskanda, Makola was based on market valuations carried out on 31 March 2019 by Mr Koralege Dayananda Tissera, Chartered Valuation Surveyor (UK) a professional valuer.

The fair value of investment properties situated at Borupana, Ratmalana and Bambarakelle, Nuwara-Eliya valued by Mr A A M Fathihu – Former Government Chief Valuer and Mr J S M I B Karunatilaka. Associate Member of the Institute of Valuers of Sri Lanka.

38.2 Amounts recognised in profit or loss

Rental income from investment property of Group for 2020, LKR 293 Mn (2019 – LKR 227 Mn).

Operating expenses on investment property of Group for 2020 – LKR 52 Mn (2019 – LKR 43 Mn).

39 Property, plant and equipment →

Accounting Policy →

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

Subsequent costs

Subsequent expenditure is capitalised only when its probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed as incurred.

Capital work-in-progress

There are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the statement of financial position at cost. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. When it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

Depreciation

Items of property, plant and equipment are depreciated from the month they are available for use up to the month of disposal. Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property, plant and equipment are as follows:

	Years
Buildings	20 – 40
Office equipment and motor vehicles	3 – 5
Fixtures and fittings	10

Derecognition

The carrying amount of property and equipment is derecognised on disposal or when non-future economic benefits are expected from its use or the gain or loss arising from the de-recognition (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve. Any loss is recognised in income statement.

39.1 Reconciliation of carrying amount – Bank

	Land and buildings	Right-of-use asset	Office equipment	Furniture and fittings	Motor vehicles	Work-in-progress	Total 31 December 2020 LKR '000	Total 31 December 2019 LKR '000
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000		
Cost at beginning	668,985	1,659,887	2,432,048	1,180,130	302,393	178,582	6,422,025	4,348,831
Recongnition of right-of-use asset an initial application of SLFRS 16	–	–	–	–	–	–	–	1,248,463
Adjusted balance at beginning	668,985	1,659,887	2,432,048	1,180,130	302,393	178,582	6,422,025	5,597,294
Acquisitions	27,310	315,128	161,169	146,180	–	239,120	888,907	1,001,506
Transfer from work in progress	356,505	–	45,635	–	–	(402,140)	–	–
Less: Disposals	–	110,759	85	3,080	–	–	113,924	176,775
Cost as at 31 December	1,052,800	1,864,256	2,638,767	1,323,230	302,393	15,562	7,197,008	6,422,025
Accumulated depreciation at beginning	256,148	273,620	1,726,636	720,578	214,199	–	3,191,182	2,728,456
Depreciation for the year	8,316	292,457	266,601	82,988	25,556	–	675,918	624,077
Less: Accumulated depreciation on disposals	–	74,085	–	2,607	–	–	76,692	161,351
Accumulated depreciation as at 31 December	264,464	491,992	1,993,237	800,959	239,755	–	3,790,408	3,191,182
Carrying value as at 31 December	788,336	1,372,264	645,530	522,271	62,638	15,562	3,406,600	–
Carrying value as at 31 December	412,837	1,386,267	705,411	459,552	88,194	178,582	–	3,230,843

Notes to the Financial Statements

39.1.1 List of freehold lands and buildings

	Number of buildings in land holdings	Buildings Sq. ft.	Extent of land Perches*	Cost LKR '000	Accumulated depreciation LKR '000	Carrying amount LKR '000
73/5, Galle Road, Colombo 3	1	57,190	106.61	85,518	79,613	5,905
5, Deva Veediya, Kandy	1	4,600	12.54	16,195	7,933	8,262
73, W A D Ramanayake Mawatha, Colombo 2	1	37,538	45.00	197,268	139,351	57,917
No. 454, Main Street, Negombo	1	19,087	29.00	170,325	36,297	134,028
No. 77, Colombo Road, Kurunegala	1	31,459	30.00	583,494	1,270	582,224
				1,052,800	264,464	788,336

* 1 perch = 25.2929 m²; 1 Sq.ft = 0.0929 m²

39.1.2 Market value of properties

	LKR Mn	Date of valuation
73/5, Galle Road, Colombo 3	1,905	31 December 2020
5, Deva Veediya, Kandy	140	31 December 2020
73, W A D Ramanayake Mawatha, Colombo 2	878	31 December 2020
No. 454, Main Street, Negombo	275	18 May 2019
No. 77, Colombo Road, Kurunegala	600	31 December 2020

Valued by Mr A A M Fathihu – Former Government Chief Valuer and Mr R W M S B Rajapakse. Fellow Member of the Institute of Valuers of Sri Lanka.

39.1.3 Fully depreciated property, plant and equipment – Bank

The initial cost of fully depreciated property, plant and equipment, which are still in use as at the reporting date is as follows:

As at 31 December	2020 LKR '000	2019 LKR '000
Land and buildings	206,835	199,702
Office equipment	1,326,555	1,195,006
Furniture and fittings	462,616	392,578
Motor vehicles	156,447	174,611
	2,152,453	1,961,897

39.2 Reconciliation of carrying amount – Group

	Land and building	Right-of-use asset	Office equipment	Furniture and fittings	Motor vehicles	Work-in-progress	Total 31 December 2020 LKR '000	Total 31 December 2019 LKR '000
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost at beginning	922,386	1,661,987	2,479,420	1,194,828	353,720	178,582	6,790,923	4,716,745
Recognition of right-of-use asset on initial application of SLFRS 16								1,250,563
Adjusted balance at beginning	922,386	1,661,987	2,479,420	1,194,828	353,720	178,582	6,790,923	5,967,308
Acquisitions	29,408	315,128	163,726	146,308	–	258,480	913,050	1,006,824
Transfer from work in progress	356,505	–	45,635	–	–	(402,140)	–	–
Transfer from Investment property	109,543	–	–	–	–	–	109,543	–
Less: Disposals	4,314	110,759	599	3,328	12,447	–	131,447	183,209
Cost as at 31 December	1,413,528	1,866,356	2,688,182	1,337,808	341,273	34,922	7,682,069	6,790,923
Accumulated depreciation at beginning	433,420	275,420	1,766,276	739,538	263,628	–	3,478,282	2,997,841
Depreciation for the year	25,526	292,757	271,148	83,594	27,401	–	700,426	648,225
Less: Accumulated depreciation on disposals	4,085	74,085	536	2,607	11,825	–	93,138	167,784
Transfer from Investment property	9,480	–	–	–	–	–	9,480	–
Accumulated depreciation as at 31 December	464,341	494,092	2,036,888	820,525	279,204	–	4,095,050	3,478,282
Carrying amount as at 31 December	949,187	1,372,264	651,294	517,283	62,069	34,922	3,587,019	–
Carrying amount as at 31 December	488,966	1,386,567	713,144	455,290	90,092	178,582	–	3,312,641

39.3 Title restriction on property, plant and equipment

There are no restrictions that existed on the title of property, plant and equipment of the Bank/Group as at the reporting date.

39.4 Acquisition of property, plant and equipment during the year

During the financial year, the Bank and the Group acquired property, plant and equipment to the aggregate value of LKR 889 Mn and LKR 913 Mn respectively (2019 – LKR 1,002 Mn and LKR 1,007 Mn respectively). Cash payments amounting to LKR 843 Mn and LKR 867 Mn respectively (2019 – LKR 567 Mn and LKR 573 Mn respectively) were made during the year for purchase of property plant and equipment by the Bank and the Group.

39.5 Disposal of property, plant and equipment during the year

During the financial year, the Bank and the Group disposed property, plant and equipment to the aggregate value of LKR 114 Mn and LKR 131 Mn respectively (2019 – LKR 177 Mn and LKR 183 Mn respectively). Gain/(loss) on disposal of property, plant and equipment is disclosed in Note 16 to the financial statements.

39.6 Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2019 – Nil).

39.7 Amount of contractual commitments for the acquisition of property, plant and equipment

The contractual commitments for the acquisition of property, plant and equipment as at the reporting date is LKR 408 Mn.

Notes to the Financial Statements

39.8 Impairment of property, plant and equipment

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use (VIU). The fair value less costs to sell calculation is based on available data from an active market, in an arm's length transaction, of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The Management has assessed the potential impairment loss of property, plant and equipment as at 31 December 2020. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of property, plant and equipment.

40 Intangible assets and goodwill →

Accounting Policy →

Recognition and measurement

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other intangible assets

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

39.9 Property, plant and equipment pledged as security

None of the property, plant or equipment have been pledged as security as at the reporting date.

39.10 Permanent fall in value of property, plant and equipment

There has been no permanent fall in value of PPE which require an impairment provision in the financial statements.

39.11 Temporarily idle property, plant and equipment

There are no temporarily idle property, plant or equipment as at the reporting date.

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

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

Amortisation

Amortisation is calculated to write-off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

Computer software	3 – 15 years
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Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Derecognition

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

Notes to the Financial Statements

As at 31 December	Note	BANK		GROUP	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Computer software	40.1	809,947	838,472	825,475	859,736
Software under development	40.2	903,105	346,187	903,105	346,187
Goodwill on consolidation	40.3	–	–	156,226	156,226
Total		1,713,052	1,184,659	1,884,806	1,362,149

40.1 Computer software

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cost at beginning	2,137,421	1,722,199	2,168,731	1,730,041
Acquisitions	315,082	316,962	315,082	325,543
Disposals	(112,478)	–	(112,478)	–
Transfer from prepayments	–	98,260	–	113,147
Cost as at 31 December	2,340,025	2,137,421	2,371,335	2,168,731
Accumulated amortisation at beginning	1,298,949	1,079,370	1,308,995	1,084,646
Amortisation for the year	243,739	219,579	249,475	224,349
Less: Accumulated depreciation on disposal	(12,610)	–	(12,610)	–
Accumulated amortisation as at 31 December	1,530,078	1,298,949	1,545,860	1,308,995
Carrying amount as at 31 December	809,947	838,472	825,475	859,736

40.2 Software under development

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
As at beginning	346,187	26,005	346,187	40,893
Addition to work in progress	556,918	418,442	556,918	418,442
Transfers/adjustments	–	(98,260)	–	(113,148)
Cost as at 31 December	903,105	346,187	903,105	346,187

40.3 Goodwill on consolidation

As at 31 December	GROUP	
	2020 LKR '000	2019 LKR '000
DFCC Vardhana Bank PLC	146,603	146,603
Lanka Industrial Estates Limited	9,623	9,623
	156,226	156,226

In accordance with the provisions of part VIII of the Companies Act, DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC with effect from 1 October 2015. The amalgamation between two entities is considered as a common control transaction, as DFCC Bank continues to control the operations of DVB after amalgamation. Thus the results of amalgamation of two entities are economically the same before and after the amalgamation as the entity will have identical net assets.

Notes to the Financial Statements

Therefore DFCC will continue to record carrying values including the remaining goodwill that resulted from the original acquisition of DVB in the consolidated financial statements.

There were no impairment losses recognised in goodwill as at 31 December 2020.

40.4 Assessment of impairment of intangible assets

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2020. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date.

40.5 Title restriction on intangible assets

There are no restrictions that existed on the title of the intangible assets of the Group as at the reporting date.

41 Deferred taxation →

Accounting policy in Note 22.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Deferred tax asset/liability				
Deferred tax liability (Note 41.1)	243,949	–	341,691	96,714
Deferred tax asset (Note 41.2)	–	308,853	2,919	314,029
Net deferred tax liability/asset	243,949	308,853	338,772	217,315

41.1 Deferred tax liability

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance at beginning	1,183,340	927,029	1,282,125	1,019,562
Recognised in income statement	(184,386)	(118,076)	(181,029)	(111,824)
Recognised in other comprehensive income	777,396	374,387	777,396	374,387
	1,776,350	1,183,340	1,878,492	1,282,125
Transferred from deferred tax asset	(1,532,401)	(1,183,340)	(1,536,801)	(1,185,411)
	243,949	–	341,691	96,714

40.6 Intangible assets pledged as security

None of the Intangible assets have been pledged as security as at the reporting date.

40.7 Acquisition of intangible assets during the year

During the financial year, the Bank and the Group acquired intangible assets to the aggregate value of LKR 872 Mn and LKR 872 Mn respectively (2019 – LKR 735 Mn and LKR 743 Mn respectively). Cash payments amounting to LKR 839 Mn and LKR 839 Mn respectively (2019 – LKR 700 Mn and LKR 705 Mn) were made for purchase intangible assets by the Bank and the Group respectively, during the year.

40.8 Amount of contractual commitments for the acquisition of intangible assets

The contractual commitments for the acquisition of intangible assets as at the reporting date is LKR 348 Mn.

41.2 Deferred tax asset

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance at beginning	1,492,193	1,418,552	1,499,440	1,421,838
Effect of foreign currency movement	(457)	438	(457)	438
Recognised in income statement	67,465	155,808	67,562	159,811
Recognised in other comprehensive income	(26,800)	(82,605)	(26,825)	(82,647)
	1,532,401	1,492,193	1,539,720	1,499,440
Offset against deferred tax liability	(1,532,401)	(1,183,340)	(1,536,801)	(1,185,411)
	-	308,853	2,919	314,029

41.3 Recognised deferred tax assets and liabilities

As at 31 December	BANK				GROUP			
	2020		2019		2020		2019	
	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000
Assets								
Gratuity liability and actuarial losses on defined benefit plans	519,314	145,408	501,086	140,304	536,437	150,202	516,125	144,515
Unutilised tax losses	-	-	-	-	262	73	10,843	3,036
Cross currency SWAP	311,242	87,148	313,039	87,651	311,242	87,148	313,039	87,651
Expected credit loss – Loans to and receivables from banks and other customers	4,642,304	1,299,845	4,515,136	1,264,238	4,651,060	1,302,297	4,515,136	1,264,238
	5,472,860	1,532,401	5,329,261	1,492,193	5,499,001	1,539,720	5,355,143	1,499,440
Liabilities								
Property, equipment and software	777,494	217,698	718,068	201,059	1,000,884	280,247	953,626	267,015
Finance leases	1,331,982	372,955	2,004,804	561,345	1,331,982	372,955	2,004,804	561,345
Fair value through other comprehensive income financial assets	4,197,085	1,175,184	1,420,672	397,788	4,197,085	1,175,184	1,420,672	397,788
Right of use asset	37,547	10,513	82,672	23,148	37,547	10,513	82,672	23,148
Undistributed profits of the Group	-	-	-	-	141,404	39,593	117,247	32,829
	6,344,108	1,776,350	4,226,216	1,183,340	6,708,902	1,878,492	4,579,021	1,282,125

Notes to the Financial Statements

41.4 Impact due to corporate income tax rate change

The Government has announced a reduction of the income tax rate to 24% from 28% with effect from 1 January 2020 except for Synapsys Limited, where the tax will be abolished from 14%.

As provided in LKAS 12 on "Income taxes", deferred tax assets and liabilities should be measured at the tax rate that are expected to be applied in the period in which the asset will be realised or the liability will be settled, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the reporting date. As the said amendment to tax rates is yet to be approved by the Parliament and cannot be considered to be legislated, the proposed changes to the tax rates have not been considered to be substantially enacted as at the reporting

date. Accordingly, the prevailing income tax rate of 28% has been used for current tax and deferred tax computation as at 31 December 2020.

The Bank has a cumulative net deferred tax asset of LKR 252 Mn recognised through the income statement and net deferred tax liability of LKR 804 Mn recognised through OCI.

Had the Bank applied the reduced income tax rate of 24% to calculate deferred tax assets/liabilities as at 31 December 2020, the net deferred tax liability would have been decreased by LKR 35 Mn and the resulting charge to income statement and the reversal to other comprehensive income for the year would have been LKR 120 Mn and LKR 155 Mn respectively.

42 Other assets →

See accounting policy in Note 5.3.2.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Financial assets				
Refundable deposits	16,104	15,729	22,384	21,659
Other receivables (Note 42.1)	818,087	885,952	879,152	971,017
Clearing account balances	1,165,085	1,245,377	1,165,085	1,245,377
Due from subsidiaries (Note 42.2)	129	1,509	-	-
	1,999,405	2,148,567	2,066,621	2,238,053
Non-financial assets				
Advances and prepayments (Note 42.3)	1,070,829	1,003,548	1,086,656	1,003,548
Defined benefit asset (Note 48.1)	-	131,185	-	131,185
	1,070,829	1,134,733	1,086,656	1,134,733
	3,070,234	3,283,300	3,153,277	3,372,786

42.1 Includes receivable from Government of Sri Lanka in respect of reimbursement of additional interest paid on Special Deposit Accounts (SDA) interest differential on Special Senior Citizen fixed deposit and interest subsidy on credit lines amounting to LKR 686 Mn as at 31 December 2020. (LKR 275 Mn as at 31 December 2019).

42.2 Due from subsidiaries

As at 31 December	BANK	
	2020 LKR '000	2019 LKR '000
DFCC Consulting (Pvt) Limited	129	1,509
	129	1,509

42.3 Advances and prepayments includes LKR 79 Mn incurred by the Bank to acquire computer software, and LKR 34 Mn related to Synapsys Limited.

The maturity analysis of other assets is given in Note 8.3.3 on pages 184 to 187.

43 Assets held for sale →

Accounting Policy →

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred

tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held for sale or held for distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

As at 31 December	GROUP	
	2020 LKR '000	2019 LKR '000
Balance at beginning	40,000	–
Investment in subsidiary classified as held for sale during the year	–	40,000
Proceeds from disposal	(20,400)	–
Balance as at 31 December	19,600	40,000

The Company transferred its internally developed intangible asset named, "Tea Integrated Payment System (TIPS)" to Company's subsidiary "Agrithmics (Pvt) Ltd." on 18 December 2019 for LKR 40 Mn.

Synapsys incorporated "Agrithmics Private Limited" a fully-owned subsidiary on 8 February 2018 with the expectation of transferring companies' Agribusiness section (TIPS) to this subsidiary. On 18 December 2019, Company has transferred Company's internally developed intangible asset "(TIPS)" to Agrithmics (Pvt) Ltd. for fair value of LKR 40 Mn and in return Agrithmics (Pvt) Ltd. has issued four million equity shares for total consideration of LKR 40 Mn to the Company, granting it control of Agrithmics (Pvt) Ltd. The Company has recognised the gain on transferring the intangible asset under other income in the financials as explained in Note 7 to these financials.

Further, the Company entered into an agreement to transfer up to 90% of the equity interest of Agrithmics (Pvt) Ltd. to Dialog Axiata Digital Innovation Fund (Pvt) Ltd. ("DIF") on 31 December 2019. Accordingly, as the first phase, 51% equity interest was transferred and transaction has been completed on 26 March 2020. Second phase to sell the 39% for the consideration of LKR 15,600,000 by next year. As per the signed agreement, as the second phase, balance 1,560,000 shares (39% holding) will be transferred to DIF no later than 1 year from first completion date, which falls on 26 March 2021. Therefore the Company has classified the investment in Agrithmics (Pvt) Ltd. as a disposal group in the financial statements in accordance with SLFRS 5.

The Group has not consolidated the financial results of Agrithmics in these financial statements since the said investment in Agrithmics has been classified as asset held for sale as at the reporting date.

Notes to the Financial Statements

43.1 Impairment losses relating to disposal group

There was no impairment losses to be recognised in the financial statements for the year ended 31 December 2020, in respect of the asset held for sale as its carrying value was based on the third party offer made for the software.

43.2 Cumulative income or expenses included in OCI

There are no cumulative income or expenses included in OCI relating to the asset held for sale.

43.3 Measurement of fair values

Fair value hierarchy

The non-recurring fair value measurement for the asset held for sale of LKR 19.6 Mn (after costs to sell) has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

44 Due to banks →

See accounting policy in Note 5.3.2.

These represent call money borrowings, credit balances in nostro accounts and borrowings from banks. Subsequent to initial recognition, these are measured at amortised cost using the EIR method. Interest paid/payable on these borrowings are recognised in income statement.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Borrowings – Foreign banks	7,725,972	6,343,513	7,725,972	6,343,513
– Local banks	7,183,965	14,648,882	7,183,965	14,648,882
Securities sold under repurchase (Repo) agreements	–	3,602,433	–	3,602,433
	14,909,937	24,594,828	14,909,937	24,594,828

The maturity analysis of due to banks is given in Note 8.3.3 on pages 184 to 187.

45 Financial liabilities at amortised cost – Due to depositors →

See accounting policy in Note 5.3.2.2.1.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Total amount due to depositors	310,026,892	247,786,974	309,566,423	247,457,696

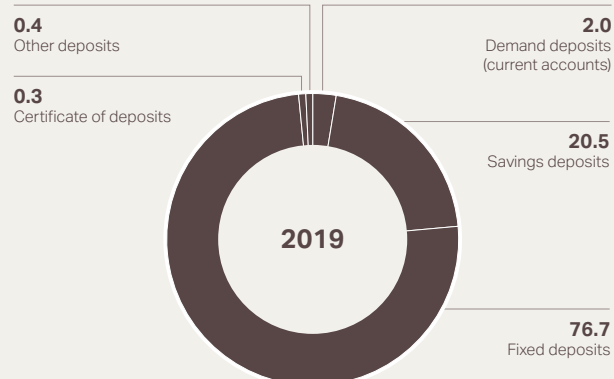
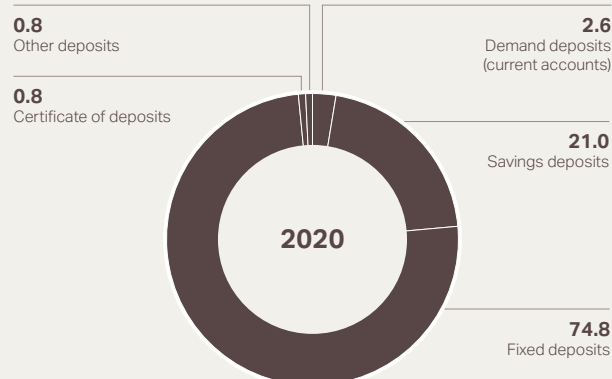
45.1 Analysis

45.1.1 By product

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Demand deposits (current accounts)	8,016,789	5,021,910	8,016,724	5,021,860
Savings deposits	65,048,922	50,847,818	65,004,141	50,816,178
Fixed deposits	232,153,438	190,178,094	231,737,815	189,880,506
Certificate of deposits	2,473,374	838,979	2,473,374	838,979
Other deposits	2,334,369	900,173	2,334,369	900,173
	310,026,892	247,786,974	309,566,423	247,457,696

Deposit mix – Bank

%



45.1.2 By currency

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lanka Rupee	266,794,993	200,933,935	266,352,671	200,614,380
United States Dollar (USD)	36,948,552	44,140,636	36,930,405	44,130,913
Great Britain Pound (GBP)	2,989,372	1,023,696	2,989,372	1,023,696
Others	3,293,975	1,688,707	3,293,975	1,688,707
	310,026,892	247,786,974	309,566,423	247,457,696

Notes to the Financial Statements

45.1.3 By institution/customers

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Deposits from banks	1,959,565	2,342,417	1,959,565	2,342,417
Deposits from finance companies	2,383,009	1,738,402	2,383,009	1,738,402
Deposits from other customers	305,684,318	243,706,155	305,223,849	243,376,877
	310,026,892	247,786,974	309,566,423	247,457,696

The maturity analysis of deposits from customers is given in Note 8.3.3 on pages 184 to 187.

46 Financial liabilities at amortised cost – Due to other borrowers →

See accounting policy in Note 5.3.2.2.1.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Repayable in foreign currency				
Borrowing sourced from				
Multilateral institutions	1,764,889	2,281,613	1,764,889	2,281,613
Bilateral institutions	11,200,561	14,725,462	11,200,561	14,725,462
	12,965,450	17,007,075	12,965,450	17,007,075
Repayable in Rupees				
Borrowing sourced from				
Multilateral institutions	16,977,899	17,862,168	16,977,899	17,862,168
Bilateral institutions	1,144,446	1,465,330	1,144,446	1,465,330
Central Bank of Sri Lanka – Refinance loans (secured)	8,601,350	129,897	8,601,350	129,897
Securities sold under repurchase (Repo) agreements	7,157,931	10,843,086	7,157,931	10,843,086
	33,881,626	30,300,481	33,881,626	30,300,481
	46,847,076	47,307,556	46,847,076	47,307,556

46.1 Assets pledged as security

Nature	31 December 2020 LKR '000	31 December 2019 LKR '000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank	8,601,350	129,897

47 Debt securities in issue →

See accounting policy in Note 5.3.2.2.1.

47.1 Debt securities at amortised cost issued by Bank

	Face value LKR '000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP	
						31 December 2020 LKR '000	31 December 2019 LKR '000
Debenture issue – (LKR)							
- Listed							
	3,804,760	13.50	5 years	28 March 19	28 March 24	4,182,678	4,179,217
	1,784,070	13.75	7 years	28 March 19	28 March 26	1,963,980	1,962,734
	4,411,170	13.90	10 years	28 March 19	28 March 29	4,859,525	4,856,986
	3,000,000	9.10	5 years	10 June 15	10 June 20	–	3,149,261
- Unlisted							
	5,000,000	11.00	5 years	12 June 20	12 June 25	5,285,096	–
	18,000,000					16,291,279	14,148,198
Due within one year						–	3,149,261
Due after one year						16,291,279	10,998,937
						16,291,279	14,148,198

47.2 Carrying values are the discounted amounts of principal and interest.

47.3 There were no debt securities in issue designated as FVTPL.

47.4 The Bank/Group did not have any defaults of principle or interest or other breaches with respect to its debt securities during the years ended 31 December 2020.

Notes to the Financial Statements

47.5 Debt securities issued – Listed debentures

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of comparative Government Securities p.a %	Balance as at 31.12.2020 LKR '000	Market price			Yield last traded %
					Highest	Lowest	Last traded	
Fixed rate								
Listed								
2019/2024	Annually	13.50	6.22	4,182,678	N/T	N/T	N/T	N/T
2019/2026	Annually	13.75	6.73	1,963,980	N/T	N/T	N/T	N/T
2019/2029	Annually	13.90	7.26	4,859,525	N/T	N/T	N/T	N/T
Unlisted								
2020/2025	Annually	11.00	6.62	5,285,096	N/T	N/T	N/T	N/T

N/T – Not traded

Other ratios	31 December 2020	31 December 2019
Debt to equity ratio	2.06	2.03
Interest cover	1.52	1.44
Liquid asset ratio (%)	34.99	26.89

47.6 Disclosures regarding the utilisation of funds as per the objectives stated in the debenture prospectus

Objective as per prospectus	Amount allocated as per prospectus (LKR)	Proposed date of allocation as per prospectus	Amount allocated from proceeds (LKR) (A)	% of total proceeds	Amount utilised as at 31 December 2020 (LKR) (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested (e.g. whether lent to related party/ies etc.)
To support the Bank's balance sheet growth	Initial issue of LKR 5 Bn. and a maximum issue of LKR 7 Bn.	Upon the allotment of the Debentures	LKR 4.523 Bn	100%	LKR 4.523 Bn	100%	N/A
To improve the capital adequacy ratio		Over the period of twelve (12) months from the date of Allotment	LKR 4.523 Bn	100%	LKR 4.523 Bn	100%	N/A

48 Employee retirement benefits →

Accounting Policy →

A. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

This provides for a lump sum payment on termination of employment by resignation, retirement at the age of 55

years or death while in service. Lump sum payment is by an outside agency to which contributions are made.

All employees of the Bank are members of the Mercantile Service Provident Society and the Employees' Trust Fund Board to which the Bank contributes 15% and 3% respectively of such employee's consolidated salary.

Other subsidiary companies of the Group contribute to the Employees' Provident Fund and Employees' Trust Fund in the range of 12% – 15% and 3% respectively.

Contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

B. Defined benefit plans (DBPs)

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

Pension liability arising from defined benefit obligations

Description of the plan and employee groups covered

The Bank established a trust fund in May 1989, for payment of pension which operates the pension scheme approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on pre-retirement salary. All members of the permanent staff who joined prior to 1 May 2004 are covered by this funded pension scheme subject to fulfilment of eligibility conditions prescribed by the Bank.

The scheme was amended on 31 August 1998 and the amended plan will apply to all members of the permanent staff who joined the Bank on or after this date and prior to 1 May 2004. The amendment reduced the scope of the benefit in the interest of long-term sustainability of the pension plan as advised by the independent actuary.

The defined benefit pension plan does not permit any post-retirement increases in pension nor any other benefit (e.g. medical expenses reimbursement).

Funding arrangement

The Bank's contributions to the Trust Fund are made annually based on the recommendation of an independent actuary. The employees make no contributions to qualify for the basic pension, which is therefore a non-contributory benefit to the employees.

Eligible employees who desire to provide for the payment of pension to spouse and minor children, who survive them are however, required to contribute monthly, an amount based on a percentage of gross emoluments, excluding bonus, if they joined the Bank on or after 31 August 1998 and prior to 1 May 2004.

Recognition of actuarial gains and losses

The net actuarial gains or losses arising in a financial year is due to increases or decreases in either the present value of the promised pension benefit obligation or the fair value of pension assets.

The causes for such gains or losses include changes in the discount rate, differences between the actual return, and the expected return on pension assets and changes in the estimates of actual employee turnover, mortality rates, and increases in salary.

The Group recognises the total actuarial gains and losses that arise in calculating the Group's obligation in respect of the plan in other comprehensive income and the expense under personnel expenses in the income statement during the period in which it occurs.

Recognition of past service cost

Past service cost arises when a defined benefit plan is introduced for the first time or subsequent changes are made to the benefits payable under an existing defined benefit plan. Group will recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits are already vested following the introduction of or changes to a defined benefit plan, the Group will recognise past service cost immediately.

Provision for end of service gratuity liability under a defined benefit plan

Description of the plan and employee groups covered

The Group provides for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 as amended for all employees who do not qualify under the pension scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004 on tenured or fixed term contract employment in the Bank. The subsidiary companies, which do not have a non-contributory pension scheme provide for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 for all employees. The promised benefit is half a month pre-termination salary for each completed year of service, provided a minimum qualifying period of five years is served prior to termination of employment.

The Group however, recognises the liability by way of a provision for all employees in tenured employment from the date they joined the permanent cadre, while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of five years or more either singly or together with consecutive contracts.

Funding arrangement

The Bank and the subsidiaries adopt a pay-as-you-go method whereby the employer makes a lump-sum payment only on termination of employment by resignation, retirement at the age of 55 years or death while in service.

Notes to the Financial Statements

Recognition of actuarial gains and losses

The Group recognises the total actuarial gains and losses in the other comprehensive income during the period in which it occurs.

Recognition of past service cost

Since end of service gratuity defined benefit is a statutory benefit, the recognition of past service cost will arise only if the Payment of Gratuity Act No. 12 of 1983 is amended in future to increase the promised benefit on termination of employment. In such event, the Bank will adopt the accounting policy currently used for defined benefit pension plan.

48.1 Composition

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Liability				
Unfunded defined benefit plans (Note 48.1.1)	582,869	561,104	610,792	586,351
Funded defined benefit plan (Note 48.1.2)	60,249	–	60,249	–
	643,118	561,104	671,041	586,351
Assets				
Funded defined benefit plan (Note 48.1.2)	–	131,185	–	131,185

48.1.1 Unfunded defined benefit plans

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Defined benefit				
– unfunded pension liability (Note 48.1.1.1)	63,556	60,013	63,556	60,013
– unfunded end of service gratuity (Note 48.1.1.2)	519,313	501,091	547,236	526,338
	582,869	561,104	610,792	586,351

48.1.1.1 Unfunded pension liability

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Balance at beginning	60,013	60,573
Interest on obligation	5,625	5,678
Benefits paid	(6,935)	(6,995)
Actuarial experience loss	771	757
Loss due to changes in assumptions	4,082	–
Present value of defined benefit pension obligations	63,556	60,013

This relates to pension liability of an ex-employee, not funded through the DFCC Bank PLC Pension Fund. The liability covers the pension benefit to retiree and survivor.

48.1.1.2 Unfunded end of service gratuity

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance at beginning	501,091	348,131	526,338	372,742
Current service cost	78,850	66,582	82,804	71,027
Interest on obligation	50,109	34,813	52,110	36,684
Benefits paid	(16,819)	(33,135)	(19,070)	(38,158)
Actuarial experience loss/(gain)	(47,834)	84,700	(48,862)	84,043
Gain due to changes in assumptions	(46,084)	–	(46,084)	–
Present value of unfunded end of service gratuity	519,313	501,091	547,236	526,338

48.1.2 Funded defined benefit plan – Pension liability

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Present value of defined benefit pension obligations (Note 48.1.2.1)	2,827,321	2,594,387
Fair value of pension assets (Note 48.1.2.2)	(2,767,072)	(2,725,572)
Defined benefit liability/(asset)	60,249	(131,185)

48.1.2.1 Movement in defined pension obligation

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Present value of defined benefit pension obligations at the beginning	2,594,387	2,503,310
Current service cost	53,864	54,839
Interest on obligation	259,439	250,331
Benefits paid	(198,251)	(184,183)
Actuarial experience gain	(62,533)	(29,910)
Loss due to changes in assumptions	180,415	–
Present value of defined benefit pension obligations	2,827,321	2,594,387

Notes to the Financial Statements

48.1.2.2 Movement in pension assets

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Fair value of pension assets at the beginning	2,725,572	2,646,527
Expected return on pension assets	248,700	240,353
Benefits paid	(198,251)	(184,183)
Actuarial experience (loss)/gain	(8,949)	22,875
Fair value of pension assets	2,767,072	2,725,572

48.1.2.3 Plan assets consist of the following

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Debentures	195,563	195,563
Fixed deposits	2,594,632	2,564,247
Others	(23,123)	(34,238)
	2,767,072	2,725,572

48.1.2.4 The expected benefit pay out in the future years to the employee retirement benefits – Bank

As at 31 December 2020	Unfunded pension liability* LKR '000	Unfunded end of service gratuity * LKR '000	Funded pension liability* LKR '000
Within next 12 months	6,934	32,016	216,867
Between 2 and 5 years	27,736	224,787	1,023,639
Beyond 5 years	34,670	467,653	1,531,833

* Based on expected benefits pay-out in next 10 years

48.2 Actuarial valuation

Actuarial valuation was carried out by Mr Piyal S Goonetilleke, Fellow of the Society of Actuaries USA of Piyal S Goonetilleke & Associates, on 31 December 2020.

48.2.1 Actuarial valuation method

Projected unit credit method was used to allocate the actuarial present value of the projected benefits earned by employees to date of valuation.

48.2.2 Principal actuarial assumptions

As at	31 December 2020		31 December 2019	
	Pension benefit (%)	End of service gratuity (%)	Pension benefit (%)	End of service gratuity (%)
Discount rate per annum				
Pre-retirement	9	9	10	10
Post-retirement	9	Not applicable	10	Not applicable
Future salary increases per annum	8.5	8.5	10.5	10.5
Expected rate of return on pension assets	9	–	10	–
Actual rate of return on pension assets	9.2	–	10.8	–
Mortality	UP 1984 mortality table	RP-2000 mortality table	UP 1984 mortality table	RP-2000 mortality table
Retirement age	55 years	55 years	55 years	55 years
Normal form of payment:	Lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	Lump sum	Lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	Lump sum
Turnover rate –				
Age				
20	10.0	10.0	10.0	10.0
25	10.0	10.0	10.0	10.0
30	10.0	10.0	10.0	10.0
35	7.5	7.5	7.5	7.5
40	5.0	5.0	5.0	5.0
45	2.5	2.5	2.5	2.5
50/55	1.0	1.0	1.0	1.0

The principle actuarial assumptions in the current year has changed from previous year as presented in the Note 48.2.2. The discount rate is the yield rate on 31 December 2020 with a term equaling the estimated period for which all benefit payments will continue. This period is approximately 19.83 years for pension and 10.6 years for end of service gratuity. The differences in the discount rates for pension and end of service gratuity reflect the differences in the estimated period for benefit payments will continue.

Principal Actuarial Assumptions – Group

The subsidiaries have used discount rates of 9% and the salary increment rate ranging 3% – 8.5%.

The differences in the rate of future annual salary increases reflect the remaining working life of participants for each plan.

Notes to the Financial Statements

48.2.3 Sensitivity of assumptions used in the actuarial valuation

The Following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement. The effect in the income statement and the statement of financial position with the assumed changes in the discount rates and salary increment rate is given below:

	Effect on other comprehensive income increase/(decrease) LKR '000	Effect on defined benefit obligation increase/(decrease) LKR '000
Funded pension liability		
Discount rate		
1%	243,256	(243,256)
-1%	(238,602)	238,602
Salary increment rate		
1%	(14,008)	14,008
-1%	53,895	(53,895)
Unfunded pension liability		
Discount rate		
1%	4,082	(4,082)
-1%	(4,615)	4,615
Unfunded end of service gratuity*		
Discount rate		
1%	42,159	(42,159)
-1%	(48,774)	48,774
Salary increment rate		
1%	(47,417)	47,417
-1%	41,820	(41,820)

* Salary increment not applicable for ex-employees.

48.3 Historical information

As at	31 December 2019 LKR '000	31 December 2018 LKR '000	31 December 2017 LKR '000	31 March 2016 LKR '000	31 December 2015 LKR '000
Present value of the defined benefit obligation	2,594,387	2,503,310	2,372,248	2,280,943	2,296,454
Fair value of plan assets	(2,725,572)	(2,646,527)	(2,554,068)	(2,446,306)	(2,237,646)
(Surplus)/deficit in the plan	(131,185)	(143,217)	(181,820)	(165,363)	58,808

49 Current tax liabilities →

Accounting policy in Note 22.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance at beginning	581,269	1,221,117	648,178	1,294,540
Provision for the year (Note 22.1)	1,389,508	1,362,295	1,476,304	1,441,255
Reversal of over provision (Note 22.1)	(127,252)	(173,014)	(130,612)	(174,133)
Self-assessment payments	(765,851)	(1,559,324)	(826,899)	(1,615,790)
Withholding tax/other credits	(65,029)	(269,805)	(85,107)	(297,694)
Balance as at 31 December	1,012,645	581,269	1,081,864	648,178

50 Other liabilities →**Accounting Policy** →

Provisions are recognised when it is probable that an outflow of economic benefit will be required to settle a current legal or constructive obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Financial liabilities				
Prior year's dividends	44,409	46,981	44,409	46,981
Security deposit for leases	–	–	108,598	101,849
Lease liability (Note 59.2)	1,333,069	1,302,528	1,333,069	1,302,701
Account payables	3,394,350	2,430,801	3,414,882	2,456,446
Due to subsidiaries (Note 50.2)	12,049	6,135	–	–
	4,783,877	3,786,445	4,900,958	3,907,977
Non-financial liabilities				
Accruals	614,474	552,874	654,549	571,153
Prepaid loan and lease rentals	23,963	44,298	70,047	112,234
Provision for undrawn commitments (Note 57.1.1)	356,890	180,631	356,890	180,631
Other provisions (Note 50.1)	340,650	494,939	340,650	494,939
	1,335,977	1,272,742	1,422,136	1,358,957
	6,119,854	5,059,187	6,323,094	5,266,934

Notes to the Financial Statements

50.1 Other provisions

Other provisions includes benefit payable to employees.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance at beginning	494,939	449,007	494,939	449,007
Provisions for the financial year	340,650	449,939	340,650	449,939
Provisions used during the year	(214,690)	(367,336)	(214,690)	(367,336)
Provisions reversed during the year	(280,249)	(36,671)	(280,249)	(36,671)
Balance as at 31 December	340,650	494,939	340,650	494,939

50.2 Due to subsidiaries

As at 31 December	BANK	
	2020 LKR '000	2019 LKR '000
Synapsys Limited	12,049	6,135
	12,049	6,135

51 Subordinated term debt →

Accounting policy in Note 5.3.

These represent the funds borrowed by the Bank/Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Bank/Group designates them at fair value through profit or loss. Interest paid/payable is recognised in Income Statement.

	Face value LKR '000	Interest rate %	Repayment terms	Issued date	Maturity date	BANK/GROUP	
						31 December 2020 LKR '000	31 December 2019 LKR '000
Listed debentures							
Issued by Bank	6,043,140	12.75	7 Years	9 November 16	9 November 23	6,138,994	6,134,277
	956,860	12.15	5 Years	9 November 16	9 November 21	976,423	971,190
	4,086,530	13.00	7 Years	29 March 18	29 March 25	4,474,581	4,471,362
	2,913,470	12.60	5 Years	29 March 18	29 March 23	3,183,389	3,180,325
	4,318,000	9.00	5 Years	23 October 20	23 October 25	4,376,259	-
	205,000	9.25	7 Years	23 October 20	25 October 27	207,851	-
Transferred on amalgamation	2,000,000	9.40	5 Years	10 June 15	10 June 20	-	2,102,760
	20,523,000					19,357,497	16,859,914

51.1 Subordinated term debt – Listed debentures

Debenture category	Interest rate frequency	Applicable interest rate %	Interest rate of comparative Government Securities (Gross) p.a. %	Balance as at 31 December 2020 LKR '000	Market price		
					Highest	Lowest	Last traded
Fixed rate							
2016-2021	Annually	12.15	5.05	976,423	N/T	N/T	N/T
2016-2023	Annually	12.75	6.03	6,138,994	N/T	N/T	N/T
2018-2025	Annually	13.00	6.55	4,474,581	N/T	N/T	N/T
2018-2023	Annually	12.60	5.82	3,183,389	N/T	N/T	N/T
2020-2025	Annually	9.00	6.64	4,376,259	N/T	N/T	N/T
2020-2027	Annually	9.25	7.02	207,851	N/T	N/T	N/T
				19,357,497			

N/T – Not traded.

Debt equity ratio, interest cover and liquid asset ratio is given in Note 47.5.

51.2 Subordinated liabilities by maturity

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Payable within one year	976,423	2,102,760
Payable after one year	18,381,074	14,757,154
Total	19,357,497	16,859,914

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during the year ended 31 December 2020.

The maturity analysis of subordinated liabilities is given in Note 8.3.3 on pages 184 to 187.

52 Stated capital →

Accounting Policy →

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

As at 31 December	Number of ordinary voting shares		BANK/GROUP	
	2020	2019	2020 LKR '000	2019 LKR '000
Balance at beginning	304,188,756	265,097,688	7,530,371	4,715,814
Rights issue of ordinary voting shares	–	39,091,068	–	2,814,557
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment new shares	1,808,494	–	152,094	–
Balance as at 31 December	305,997,250	304,188,756	7,682,465	7,530,371

Notes to the Financial Statements

Ordinary shares in the Bank are recognised at the amount paid per ordinary share. The shares of the Bank quoted on the Colombo Stock Exchange.

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

52.1 The Bank issued ordinary shares during the year 2019 by way of a Rights Issue to the existing shareholders of the Bank in the proportion of two (2) ordinary shares for every five (5) ordinary shares held as at end of trading on 28 March 2019 at an issue price of LKR 72 per share.

53 Statutory reserve →

Reserve fund

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Balance at beginning	2,461,968	2,358,275
Transfers	122,000	103,693
Balance as at 31 December	2,583,968	2,461,968

Five per cent of profit after tax is transferred to the reserve fund as per Direction issued by Central Bank of Sri Lanka under Section 76 (j) (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

54 Retained earnings →

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance at beginning	18,228,086	17,187,262	21,278,288	20,107,150
Adjustment on initial application of SLFRS 16, net of tax	-	-	-	(6,717)
Restated balance	18,228,086	17,187,262	21,278,288	20,100,433
Profit for the year	2,388,035	2,073,868	2,744,961	2,213,529
Other comprehensive (expense) net of tax	(64,063)	(8,956)	(62,276)	(7,249)
Transfers to statutory reserves	(122,000)	(103,693)	(122,000)	(103,693)
Dividends	(912,566)	(927,841)	(912,566)	(927,841)
Forfeiture of unclaimed dividends	6,664	6,474	6,664	6,474
Disposal of equity investments	128,013	10,222	128,013	5,852
Rights issue expenses	-	(9,250)	-	(9,250)
Change in holding through joint venture	-	-	-	33
Balance as at 31 December	19,652,169	18,228,086	23,061,084	21,278,288

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 918 Mn.

The balance is retained and reinvested in the business of the Bank.

55 Other reserves →

As at 31 December 2020	BANK			Total LKR '000
	Fair value reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	
Balance at beginning	5,704,644	(225,389)	13,779,839	19,259,094
Movements/transfers	178,167	1,294	–	179,461
Balance as at 31 December	5,882,811	(224,095)	13,779,839	19,438,555

As at 31 December 2019	BANK			Total LKR '000
	Fair value reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	
Balance at beginning	5,745,025	60,168	13,779,839	19,585,032
Movements/transfers	(40,381)	(285,557)	–	(325,938)
Balance as at 31 December	5,704,644	(225,389)	13,779,839	19,259,094

As at 31 December 2020	GROUP				Total LKR '000
	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	
Balance at beginning	4,260,073	78,377	(225,389)	13,779,839	17,892,900
Movements/transfers	179,773	24,677	1,294	–	205,744
Balance as at 31 December	4,439,846	103,054	(224,095)	13,779,839	18,098,644

As at 31 December 2019	GROUP				Total LKR '000
	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	
Balance at beginning	4,293,847	82,835	60,168	13,779,839	18,216,689
Movements/transfers	(33,774)	(4,458)	(285,557)	–	(323,789)
Balance as at 31 December	4,260,073	78,377	(225,389)	13,779,839	17,892,900

55.1 Fair value reserve

The fair value reserve comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income until such investments are derecognised or impaired.

instruments used in cash flow hedges pending subsequent recognition in Income Statement as the hedge cash flows affect profit or loss.

55.2 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging

55.3 General reserve

The Bank transfers the surplus retained earnings to the general reserve time to time. The purpose of setting up the general reserve is to meet potential future unknown liabilities.

Notes to the Financial Statements

56 Non-controlling interests →

Accounting Policy →

Non-controlling interests (NCI) are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations:

As at 31 December	Lanka Industrial Estates Limited	
	2020 LKR '000	2019 LKR '000
Non-current assets	509,148	527,777
Current assets	397,075	329,236
Non-current liabilities	(98,956)	(104,282)
Current liabilities	(228,712)	(214,358)
Net assets*	578,555	538,373
Net assets attributable to NCI – 48.84%	282,589	262,965
Revenue	350,788	343,200
Profit	208,467	177,640
Other comprehensive expense	(615)	(254)
Total comprehensive income	207,852	177,386
Profit allocated to NCI – 48.84%	101,824	86,765
Other comprehensive expense allocated to NCI – 48.84%	(300)	(124)
Cash flows from operating activities	185,848	193,394
Cash flows from investment activities	36,096	6,419
Cash flows from financing activities	(167,677)	(167,676)
Net increase in cash and cash equivalents	54,267	32,137

*See Note 35

57 Contingent liabilities and commitments →

Accounting Policy →

Commitments and contingencies

Contingent liabilities, which include guarantees are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Even though these obligations may not be recognised on the Statement of Financial Position they do contain credit risk and are there for part of the overall risk of the Bank as disclosed in Note 57.1 below:

Financial guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

57.1 Commitments and contingencies

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Guarantees issued to –				
Banks in respect of indebtedness of customers of the Bank	492,690	422,500	492,690	422,500
Companies in respect of indebtedness of customers of the Bank	8,344,637	9,181,978	8,344,637	9,181,978
Principal collector of customs (duty guarantees)	217,620	344,629	217,620	344,629
Shipping guarantees	2,409,711	1,170,860	2,409,711	1,170,860
Documentary credit	21,340,301	12,958,343	21,340,301	12,958,343
Bills for collection	3,922,026	3,131,185	3,922,026	3,131,185
Performance bonds	4,487,667	5,122,213	4,487,667	5,122,213
Forward exchange contracts	1,187,241	17,089,574	1,187,241	17,089,574
Commitments in ordinary course of business – Commitments for unutilised credit facilities	87,320,270	78,944,548	87,320,270	78,944,548
Capital expenditure approved by the Board of Directors				
Contracted	613,548	567,644	613,548	567,644
Not contracted	428,436	1,656,926	428,436	1,656,926
	130,764,147	130,590,400	130,764,147	130,590,400

Notes to the Financial Statements

57.1.1 Movement in impairment during the year

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Stage 1		
Balance at beginning	164,144	162,686
Charge to income statement	179,454	1,458
Balance as at 31 December	343,598	164,144
Stage 2		
Balance at beginning	16,487	34,895
Reversal to income statement	(3,195)	(18,408)
Balance as at 31 December	13,292	16,487
Total	356,890	180,631

Classified under other liabilities in Note 50 on page 277.

57.2 Litigation against the Bank

Litigation against the Bank

57.2.1 A client has filed action against five defendants including the Bank in the District Court of Kurunegala, claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party under the *parate* process to be set aside, and also claiming LKR 6 Mn as damages from the Bank. The Bank is defending the case before the District Court.

57.2.2 There are four cases filed in the District Court of Kandy and one case filed in the District Court of Negombo and another case in the District Court of Moratuwa, where third parties are claiming ownership of properties acquired by the Bank under recovery action. The Bank is defending the cases before the respective District Courts.

57.2.3 There is one case filed in the District Court of Bandarawela, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the case before the District Court.

57.2.4 There is one case filed in the District Court of Teldeniya, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the case before the District Court of Teldeniya.

57.2.5 A client has filed a case in the District Court of Matara claiming damages from the Bank claiming that as the loan was not disbursed in a lump sum but in instalments based on the client's progress as such his business went into decline and he suffered losses. The Bank is defending the case before the District Court of Matara.

57.2.6 A Case is filed in the District Court of Galle claiming damages from the Bank and four others.

There are no material litigations that are pending against the Group

57.3 Tax assessments against the Bank/Group

There are no assessments against the Bank/Group on substantive matters by the Department of Inland Revenue which requires disclosures in the financial statements. The Bank/Group is of the view that, tax assessments against the Bank/Group will not have any significant impact on the financial statements.

58 Related parties →

The Group's related parties include associate, subsidiaries, trust established by the Bank for post-employment retirement plan, joint venture, Entities which are controlled, or jointly controlled by Key Management Personnel or their close family members.

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures", other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

58.1 Parent and ultimate controlling party

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

58.2 Transaction with key Management Personnel**58.2.1 Key Management Personnel**

Key Management Personnel are the Board of Directors of the Bank including Chief Executive, Deputy Chief Executive, Vice President – Strategic Planning and subsidiaries, Chief Risk Officer, Chief Financial Officer, Chief Operating Officer, and Senior Vice President – Treasury and Resource Mobilisation for the purpose of Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures".

58.2.2 Compensation of Directors and other Key Management Personnel

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Number of persons	15	15	17	17
Short-term employment benefits	122,884	131,371	142,081	149,315
Post-employment benefits – Pension	2,208	1,976	2,208	1,976
– Others	19,413	19,028	19,930	19,521
	144,505	152,375	164,219	170,812

58.2.3 Other transactions with Key Management Personnel and their close family members**Statement of financial position – Bank**

As at 31 December	2020		2019	
	Number of KMPs	LKR '000	Number of KMPs	LKR '000
Assets				
Financial assets at amortised cost – Loans to and receivables from other customers	14	27,939	12	29,579
		27,939		29,579
Liabilities				
Financial liabilities at amortised cost – Due to depositors	27	511,854	26	382,601
Debt securities in issue	1	7,293	1	2,206
		519,147		384,807
Contingent liabilities and commitments		18,915		10,963

Notes to the Financial Statements

Income statement – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Interest income	2,236	2,335
Interest expenses	36,534	38,042
Fee and commission income	12	19

58.3 Transaction with entities in which Directors of the Bank have significant influence

Statement of financial position – Bank

As at 31 December	2020 LKR '000	2019 LKR '000
Liabilities		
Financial liabilities at amortised cost – Due to depositors	486,247	326,428
Debt securities in issue	–	118,239
	486,247	444,667
Contingent liabilities and commitments	1,429	10,000

Income statement – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Interest income	6,554	4,565
Interest expenses	35,708	16,139
Fee and commission income	66	497
Other operating expenses	454	1,134

58.4 Transaction with Group entities

The Group entities include the subsidiaries, associate and joint venture of the Bank.

58.4.1 Transactions with subsidiaries

Statement of financial position – Bank

As at 31 December	2020 LKR '000	2019 LKR '000
Assets		
Other assets	33,968	33,404
	33,968	33,404
Liabilities		
Financial liabilities at amortised cost – Due to depositors	461,855	341,179
Other liabilities	12,049	6,135
	473,904	347,314
Contingent liabilities and commitments	650	450

Income Statement – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Interest income	–	5
Interest expenses	34,112	36,117
Fee and commission income	213	38
Other income – Net	89,566	77,166
Other operating expenses net of reimbursements	160,891	116,024

Other transactions – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Payments made for purchase of computer software	23,436	31,961

Notes to the Financial Statements

58.4.2 Transactions with joint venture

Statement of financial position – Bank

As at 31 December	2020 LKR '000	2019 LKR '000
Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	32,962	41,861
	32,962	41,861
Liabilities		
Financial liabilities at amortised cost – Due to depositors	493	3,414
	493	3,414

Income statement – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Interest income	3,793	12,631
Fee and commission income	2	1,005
Net other operating income	50,000	75,500
Other operating expenses	7,065	17,907

58.4.3 Transactions with associate

Statement of financial position – Bank

As at 31 December	2020 LKR '000	2019 LKR '000
Liabilities		
Financial liabilities at amortised cost – Due to depositors	27	26
	27	26

Income statement – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Fee and commission income	2	18

58.5 Transactions with DFCC Bank Pension Fund – Trust

DFCC Bank Pension Fund constituted as a trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank.

As at 31 December	2020 LKR '000	2019 LKR '000
Contribution prepaid as at beginning	131,185	143,217
Contribution due for the financial year recognised as expense in income statement	(64,603)	(64,817)
Recognition of actuarial (loss)/gains in the other comprehensive income	(126,831)	52,785
Contribution (payable)/prepaid (Note 48.1.2)	(60,249)	131,185

58.6 Transactions with Government of Sri Lanka (GOSL) and its related entities

Entities related to the Government of Sri Lanka (GOSL) by virtue of their aggregate shareholdings has the power to participate in the financial and operating policy decision of the Bank and by extension to participate in the financial and operating policy decisions of the Bank. However, in fact this power was not exercised.

Paragraph 25 of Sri Lanka Accounting Standard Related Party Disclosure – LKAS 24 has exempted DFCC Bank from the normally applicable disclosure requirements on transactions with GOSL-related entities. In making use of this exemption the Board has determined that the limited disclosure required under paragraph 26 of LKAS 24 is only required to be made for transaction that are individually significant because of their size although these transactions were undertaken on normal market terms in the ordinary course of business and there was no requirement to disclose the transactions to regulatory or supervisory authorities or require shareholder approval.

58.6.1 Individually significant transactions included in the statement of financial position

Statement of financial position – Bank

As at 31 December	2020 LKR '000	2019 LKR '000
Assets		
Balances with Central Bank of Sri Lanka	4,901,753	8,666,547
Placements with banks	15,226,885	165,030
Financial assets at amortised cost – Loans to and receivables from banks	1,000,125	–
Financial assets at amortised cost – Loans to and receivables from other customers	15,666,984	15,517,585
Financial assets at amortised cost – Debt and other instruments	31,096,296	27,137,225
Financial assets measured at fair value through other comprehensive income	76,204,140	63,702,848
	144,096,183	115,189,235
Liabilities		
Due to Banks	5,189,468	9,284,419
Financial liabilities at amortised cost – Due to depositors	999,248	2,626,954
Financial liabilities at amortised cost – Due to other borrowers	31,795,422	21,768,994
Debt securities in issue	7,326,159	4,612,231
Subordinated term debt	6,834,973	6,154,314
	52,145,270	44,446,912
Commitments		
Undrawn credit facilities	624,435	7,438,628

Notes to the Financial Statements

Income statement – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Interest income	9,267,703	8,936,036
Interest expenses	4,069,080	3,852,541
Fee and commission income	511	1,050
Net gain from trading	162	1,532
Net gains from derecognition of financial assets	14,176	7,185

There are no other transactions that are collectively significant with Government-related entities.

58.7 Disclosure requirement under Section 9.3.2 (a) and 9.3.2 (b) of the CSE Listing Rules

As per Rule No. 9.3.2 (a) the Bank does not have any non-recurrent related party transactions carried out during the financial year under review with a value exceeding 10% of the equity or 5% of the total assets whichever is lower, as per the audited financial statements of the Bank.

As per Rule No. 9.3.2 (b) the Bank does not have any recurrent related party transactions carried out during the financial year under review with value exceeding 10% of the gross revenue/income, as per the latest audited financial statements of the Bank.

58.8 Pricing policy and terms for transactions with related parties

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accommodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees. The terms include pricing for loans, deposits, and services, collateral obtained for loans where appropriate.

59 Leases →

Accounting Policy →

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. 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. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made or payable at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Group determines its incremental borrowing rate by obtaining interest rates from the Bank's internal records (weighted average cost of funds) to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise the right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies SLFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Notes to the Financial Statements

59.1 Leases as lessee (SLFRS 16)

The Bank leases a number of branch and office premises. The leases typically run for a period of 5-12 years, with an option to renew the lease after that date. For some leases, payments are renegotiated to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

There were no identifiable assets that were sublet by the Bank to its subsidiary during the year.

Information about leases for which the Bank is a lessee is presented below:

59.2 Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (see Note 39).

	BANK	
	Branch and office premises 2020 LKR '000	Branch and office premises 2019 LKR '000
Balance at beginning	1,386,267	1,248,463
Depreciation charge for the year	(292,457)	(282,313)
Additions to right-of-use assets	315,128	434,075
Derecognition of right-of-use assets	(36,674)	(13,958)
Balance at 31 December	1,372,264	1,386,267

See Note 8.3.3 for maturity analysis of lease liabilities as at 31 December 2020.

The future minimum lease payments under non-cancellable operating leases were payable as follows:

At 31 December	BANK	
	2020 LKR '000	2019 LKR '000
Maturity analysis – Contractual undiscounted cash flows		
Less than one year	274,550	241,248
Between one and five years	1,049,125	1,007,904
More than five years	560,720	317,090
Total undiscounted lease liabilities at 31 December	1,884,395	1,566,242
Total discounted lease liabilities at 31 December	1,333,069	1,302,528

Refer Note 50.

59.3 Amounts recognised in income statement

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Leases under SLFRS 16		
Interest on lease liabilities	140,657	130,694
Expenses relating to short-term leases	1,500	1,725
Depreciation charge for the year	292,457	282,313
	434,614	414,732

59.4 Amounts recognised in statement of cash flows

For the year ended 31 December	2020 LKR' 000	2019 LKR' 000
Total cash outflow for leases	303,627	278,496

59.5 Extension options

Some property leases contain extension options exercisable by the Bank. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Bank has estimated that the potential future lease payments, should it exercise the extension option, would result in no material increase in lease liability.

60 Operating segments →

Accounting Policy →

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Group's other components, whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's CEO (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's headquarters), expenses, tax assets and liabilities.

60.1 Basis for segmentation

The Group has the following four strategic divisions, which are reportable segments. These divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Corporate banking	Loans, deposits and other transactions and balances with corporate customers.
Retail banking	Loans, deposits and other transactions and balances with retail customers.
Treasury	Funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.
Other	Revenue and expenses attributable to the incorporated business segments of industrial estate management, unit trust management, stock brokering and consultancy services are included in the column for others.

Segment performance is evaluated based on operating profits or losses which are measured differently from operating profits or losses in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

The Group's Management Committee reviews internal management reports from each division at least monthly.

60.2 Information about reportable segments

Information related to each reportable segment is set out below. Segment profit before tax, as included in internal management reports reviewed by the Group's Management Committee, is used to measure performance because Management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industries. Intersegment pricing is determined on an arm's length basis. Eliminations are the consolidation adjustments for inter-company transactions, dividend and dividend payable attributable to minority shareholders.

Notes to the Financial Statements

For the year ended	31 December 2020				
	Corporate banking LKR '000	Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
External revenue					
Interest income	11,148,133	19,023,235	7,689,521	40,790	37,901,679
Net fees and commission income	519,265	1,404,888	269,321	–	2,193,474
Net gain/(loss) from trading	–	–	479,152	–	479,152
Net loss from financial instruments at fair value through profit or loss	–	–	(497,931)	–	(497,931)
Net gain from derecognition of financial assets	–	–	510,386	–	510,386
Net other operating income	16,532	39,907	960,023	652,979	1,669,441
Income from external customers	11,683,930	20,468,030	9,410,472	693,769	42,256,201
Inter segment revenue	–	–	–	(389,122)	(389,122)
Total segment revenue	11,683,930	20,468,030	9,410,472	304,647	41,867,079
Other material non-cash items:					
– Impairment losses on financial assets	–	–	–	–	(3,327,892)
– Depreciation and amortisation	–	–	–	–	(970,958)
Other expenses	–	–	–	–	(33,624,343)
Segment profit before tax	–	–	–	–	3,943,886
Segment assets	126,752,290	170,095,200	153,778,921	815,960	451,442,371
Segment liabilities	83,083,022	214,097,277	110,059,796	398,124	407,638,219
Information on cash flows					
Cash flows from operating activities	–	–	–	–	31,937,036
Cash flows from investing activities	–	–	–	–	(7,426,353)
Cash flows from financing activities	–	–	–	–	(7,009,552)
Net cash flows generated during the year	–	–	–	–	17,501,131
Capital expenditure:	–	–	–	–	–
Property, plant and equipment	–	763,977	133	–	764,110
Intangible assets	–	315,082	–	–	315,082

60.3 Reconciliations of information on reportable segments to the amounts reported in the financial statements

For the year ended	2020 LKR '000	2019 LKR '000
Revenues		
Total revenue for reportable segments	42,256,201	43,561,127
Unallocated amounts	1,737,368	478,214
Elimination of inter segment revenue	(389,122)	(391,054)
Consolidated revenue	43,604,447	43,648,287

31 December 2019				
Corporate banking LKR '000	Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
13,281,469	21,896,086	6,709,512	39,255	41,926,322
487,260	1,459,649	–	–	1,946,909
–	–	(87,116)	–	(87,116)
–	–	(2,633,183)	–	(2,633,183)
–	–	209,890	–	209,890
4,927	19,291	1,508,269	665,818	2,198,305
13,773,656	23,375,026	5,707,372	705,073	43,561,127
–	–	–	(391,054)	(391,054)
13,773,656	23,375,026	5,707,372	314,019	43,170,073
–	–	–	–	(1,689,313)
–	–	–	–	(901,410)
–	–	–	–	(37,270,910)
–	–	–	–	3,308,440
120,581,116	150,810,122	116,520,149	1,946,190	389,857,577
69,159,387	155,296,677	103,429,227	50,803	327,936,094
–	–	–	–	(15,475,980)
–	–	–	–	(5,468,127)
–	–	–	–	21,114,357
–	–	–	–	170,250
335	332,672	2,683	9,808	345,498
–	401,407	–	8,578	409,985

Notes to the Financial Statements

As at 31 December	2020 LKR '000	2019 LKR '000
Assets		
Total assets for reportable segments	451,442,371	389,857,577
Other unallocated amounts	15,924,164	17,054,015
Consolidated total assets	467,366,535	406,911,592
Liabilities		
Total liabilities for reportable segments	407,638,219	327,936,094
Other unallocated amounts	8,019,566	29,549,006
Consolidated total liabilities	415,657,785	357,485,100

61 Events after the reporting period →

Accounting Policy →

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

All material events after the reporting date have been considered and where appropriate, adjustments or

disclosures have been made in the respective Notes to the financial statements.

There have been no events subsequent to the reporting date, which would have any material effect on the Company, other than the following:

61.1 First and final dividend

The Directors have approved the payment of a first and final dividend of LKR 3.00 per share in the form of scrip dividend for the financial year ended 31 December 2020. The Board of Directors confirm that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and has obtained the certificate from the Auditor.

62 Comparative figures →

The information has been reclassified with the current year's classification in order to provide a better presentation.

As at 31 December	Current presentation		As disclosed previously	
	BANK LKR '000	GROUP LKR '000	BANK LKR '000	GROUP LKR '000
Statement of Financial Position				
Financial assets at amortised cost – Loans to and receivables from banks	–	–	8,403,175	8,403,175
Financial assets at amortised cost – Debt and other instruments	30,147,032	30,147,032	21,743,857	21,743,857

63 Directors' responsibility →

The Board of Directors of the Bank is responsible for the preparation and presentation of these financial statements. Please refer page 147 for the Statement of Directors' Responsibility.