

PUBLIC BANK BERHAD – SRI LANKA BRANCH

FINANCIAL STATEMENTS

31 DECEMBER 2024

HLF/YP/DRM

**INDEPENDENT AUDITORS' REPORT
TO THE MANAGEMENT OF PUBLIC BANK BERHAD - SRI LANKA BRANCH**

Opinion

We have audited the financial statements of Public Bank Berhad - Sri Lanka Branch (the "Branch") which comprise the statement of financial position as at 31 December 2024, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cashflows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

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

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

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

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

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Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charge with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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Report on other legal and regulatory requirements

Requirements of section 163(2) of the Companies Act No. 07 of 2007 and section 39 of the Banking Act No 30 of 1988 (as amended by Banking Act No.24 of 2024)

We have obtained all the information and explanations that were required for the audit. As far as appears from our examination, in our opinion, proper accounting records have been kept by the Branch.

In our opinion the disclosures made in the accompanying financial statements are in accordance with the requirements of Circular No.05 of 2024 issued by Central Bank of Sri Lanka.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3755

24 February 2025

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Public Bank Berhad – Sri Lanka Branch
STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

	Note	2024 Rs.	2023 Rs.
ASSETS			
Cash and cash equivalents	14.	2,086,993,924	2,352,693,562
Statutory deposit with Central Bank of Sri Lanka	15.	23,758,712	21,837,799
Financial assets measured at amortised cost			
- Loans and advances	16.	5,490,115,372	5,528,173,795
- Debt and other instruments	17.	4,335,592,447	3,689,750,323
Financial assets measured at fair value through other comprehensive income	18.	43,992,496	38,888,724
Property, plant and equipment	19.	67,549,880	106,839,577
Intangible assets	20.	29,391,487	7,114,960
Right-of-use asset	21.	119,348,108	103,479,475
Deferred tax assets	22.	43,633,074	72,871,635
Other assets	23.	183,218,502	197,882,916
Total assets		12,423,594,002	12,119,532,766
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	24.	11,269,553	14,261,544
Deposits from customers	25.	3,648,758,391	3,417,309,420
Lease liability	26.	146,656,123	132,716,176
Current tax liability	27.	67,462,524	175,229,165
Retirement benefit obligations	28.	58,981,017	37,435,227
Other liabilities	29.	253,724,934	222,331,120
		4,186,852,542	3,999,282,652
Equity			
Assigned capital	30.	3,792,318,132	3,792,318,132
Statutory reserve fund	31.	191,803,087	179,424,130
FCBU revaluation reserve	32.	599,674,022	714,180,790
Other reserves	33.	40,962,497	35,858,724
Retained earnings		3,611,983,722	3,398,468,338
		8,236,741,460	8,120,250,114
Total liabilities and equity		12,423,594,002	12,119,532,766

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

Approved and signed for and on behalf of the Management.


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Hsin Haw Li
Country Head


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Ajith Lanerolle
Head of Finance

The accounting policies and notes on pages 09 through 65 form an integral part of the financial statements.



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2024

	Note	2024 Rs.	2023 Rs.
Interest income	5.	1,183,684,669	1,905,440,049
Interest expenses	5.	(209,075,297)	(295,354,682)
Net interest income		<u>974,609,372</u>	<u>1,610,085,367</u>
Fee and commission income	6.	38,768,632	47,023,103
Fee and commission expenses	6.	(11,557,985)	(7,822,417)
Net fee and commission income		<u>27,210,647</u>	<u>39,200,686</u>
Other operating income	7.	63,929,974	99,704,998
Total operating income		<u>1,065,749,994</u>	<u>1,748,991,051</u>
Impairment reversal / (charges) for financial assets carried at amortized cost	8.	119,845,330	(18,205,737)
Net operating income		<u>1,185,595,324</u>	<u>1,730,785,314</u>
Depreciation and amortization	9.	(62,515,392)	(49,894,961)
Personnel expenses	10.1	(231,457,474)	(192,055,211)
Premises, equipment and establishment expenses		(223,216,865)	(209,968,755)
Other overhead expenses		(95,599,124)	(94,774,344)
Operating profit before Value Added Tax (VAT) on financial services and Social Security Contribution Levy	10.	<u>572,806,470</u>	<u>1,184,092,043</u>
Value Added Tax (VAT) on financial services and Social Security Contribution Levy	11.	(149,073,613)	(245,188,064)
Profit before income tax		<u>423,732,857</u>	<u>938,903,979</u>
Income tax expenses	12.	(176,153,711)	(350,922,623)
Profit for the year		<u>247,579,146</u>	<u>587,981,357</u>
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gains /(loss) on retirement benefit obligations	28.	(30,978,291)	(11,109,733)
Deferred tax on other comprehensive income	22.	9,293,487	3,332,920
Net change in fair value of financial investments measure at FVOCI	18.	5,103,772	7,743,379
		<u>(16,581,032)</u>	<u>(33,434)</u>
Items that are or may be reclassified subsequently to profit or loss			
Gain/(Loss) on translation of FCBU	32.	(114,506,768)	(140,309,932)
		<u>(114,506,768)</u>	<u>(140,309,932)</u>
Total other comprehensive income for the year, net of tax		<u>(131,087,800)</u>	<u>(140,343,366)</u>
Total comprehensive income for the year		<u>116,491,345</u>	<u>447,637,991</u>

The accounting policies and notes on pages 09 through 65 form an integral part of the financial statements.



STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2024

	Assigned Capital	Statutory Reserve Fund	FCBU Revaluation Reserve	Other Reserves	Retained Earnings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2023	3,792,318,132	150,025,062	854,490,722	28,115,345	2,847,662,862	7,672,612,123
Profit for the Year	-	-	-	587,981,357	587,981,357	587,981,357
<i>Other comprehensive income</i>						
Actuarial gain/(loss) on defined benefit plans	-	-	-	(11,109,733)	(11,109,733)	(11,109,733)
Deferred Tax reversal on other comprehensive income	-	-	-	3,332,920	3,332,920	3,332,920
Gain/(Loss) on translation of FCBU	-	-	(140,309,932)	-	(140,309,932)	(140,309,932)
Net change in fair value of equity investments	-	-	(140,309,932)	7,743,379	7,743,379	7,743,379
Total other comprehensive income, net of income tax	-	-	(140,309,932)	7,743,379	580,204,544	447,637,991
Transfer to statutory reserve fund	-	29,399,068	-	(29,399,068)	(29,399,068)	-
Total transactions recorded directly in equity	-	29,399,068	-	(29,399,068)	(29,399,068)	-
Balance as at 31 st December 2023	3,792,318,132	179,424,130	714,180,790	35,858,724	3,398,468,338	8,120,250,114
Balance as at 1st January 2024	3,792,318,132	179,424,130	714,180,790	35,858,724	3,398,468,338	8,120,250,114
Profit for the year	-	-	-	247,579,146	247,579,146	247,579,146
<i>Other comprehensive income</i>						
Actuarial gain/ (loss) on defined benefit plans	-	-	-	(30,978,291)	(30,978,291)	(30,978,291)
Deferred Tax on other comprehensive income	-	-	-	9,293,487	9,293,487	9,293,487
Gain/(Loss) on translation of FCBU	-	-	(114,506,768)	-	(114,506,768)	(114,506,768)
Net change in fair value of equity investments	-	-	(114,506,768)	5,103,773	5,103,773	5,103,773
Total other comprehensive income, net of income tax	-	-	(114,506,768)	5,103,773	225,894,342	116,491,346
Transfer to statutory reserve fund	-	12,378,957	-	(12,378,957)	(12,378,957)	-
Total transactions recorded directly in equity	-	12,378,957	-	(12,378,957)	(12,378,957)	-
Balance as at 31 st December 2024	3,792,318,132	191,803,087	599,674,022	40,962,497	3,611,983,722	8,236,741,460

Balance as at 31st December 2024

Chartered

The accounting policies and notes on pages 09 through 65 form an integral part of the financial statements.

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Public Bank Berhad – Sri Lanka Branch

STATEMENT OF CASH FLOWS

Year ended 31 December 2024

	Note	2024 Rs.	2023 Rs.
Cash flows from operating activities			
Interest receipts		1,215,722,535	1,895,898,330
Interest payments		(237,754,090)	(290,811,611)
Net fee and commission receipts	6.	27,210,647	39,200,686
Net trading income	7.	36,552,313	65,995,863
Receipts from other operating activities		24,991,967	31,825,076
Payments to employees		(240,889,976)	(190,126,855)
Payment of Value Added Tax on Financial Services (FSVAT), Nations Building Tax (NBT)		(149,073,613)	(245,188,064)
Receipts/(Payments) on other operating activities		(267,287,249)	(288,988,389)
Operating profit before changes in operating assets and liabilities [Note(a)]		409,472,533	1,017,805,036
(Increase)/decrease in operating assets :			
Statutory deposit with Central Bank of Sri Lanka		(1,920,913)	70,999,212
Financial assets measured at amortised cost - loans and advances		121,962,485	198,436,020
Other Assets		14,664,414	(28,387,405)
		134,705,986	241,047,827
Increase/(decrease) in operating liabilities :			
Deposits from banks		(2,991,991)	7,597,202
Deposits from customers		260,127,764	123,483,888
		257,135,773	131,081,090
Cash generated from operating activities before income tax		801,314,292	1,389,933,953
Income tax paid	27	(245,388,303)	(321,534,633)
Net cash flows (used in) / generated from operating activities		555,925,989	1,068,399,320
Cash flows from investing activities			
Net investment in financial assets measured at amortised cost - debt instruments		(645,842,124)	(647,105,076)
Acquisition of property, plant and equipment	19	(15,397,576)	(66,259,874)
Proceeds from sale of property, plant and equipment		-	385,000
Acquisition of intangible assets	20.	-	(3,086,574)
Net purchases of Right to use assets		(15,000,000)	-
Dividend received from financial assets measured at fair value through other comprehensive income	7	2,385,695	1,499,060
Net cash flows (used in)/generated from investing activities		(673,854,005)	(714,567,464)
Cash flows from financing activities			
Payments of lease liabilities	26.	(32,769,938)	(28,242,914)
Net cash flows (used in) / generated from financing activities		(32,769,938)	(28,242,914)
Net increase/(decrease) in cash and cash equivalents		(150,697,953)	325,588,942
Cash and cash equivalents at the beginning of the year		2,355,324,404	2,170,045,394
Effect of exchange rate fluctuations on cash and cash equivalents	32.	(114,506,768)	(140,309,932)
Cash and cash equivalents at end of the year	14	2,090,119,682	2,355,324,404

The accounting policies and notes on pages 09 through 65 form an integral part of the financial statements.

Public Bank Berhad – Sri Lanka Branch

STATEMENT OF CASH FLOWS

Year ended 31 December 2024

	Note	2024 Rs.	2023 Rs.
Note (a) Reconciliation of operating profit before changes in operating assets and liabilities			
Profit before Income Tax		423,732,857	938,903,979
Increase in accrual for interest income		32,037,865	(9,541,719)
Increase/(Decrease) in accrual for interest expenses		(28,678,793)	4,543,071
Dividend Income	7	(2,385,695)	(1,499,060)
Gain on disposal of Property, Plant and Equipment	7	-	(385,000)
Depreciation of Property, Plant & Equipment	9	28,817,138	23,781,993
Amortization of right of-use assets	9	30,104,646	22,298,410
Amortization of Intangible Assets	9	3,593,608	3,814,558
Impairment charges on financial asset at amortised cost	8	(119,845,330)	18,205,737
Provision for Retirement benefit obligations	28.	7,838,932	7,157,159
Accrual for Other expenses		18,520,701	(4,671,284)
Interest expense on lease liability	26.	15,736,605	15,197,192
Operating Profit before Changes in Operating Assets & Liabilities		409,472,533	1,017,805,036

The accounting policies and notes on pages 09 through 65 form an integral part of the financial statements.

1. REPORTING ENTITY

1.1 Reporting entity

Public Bank Berhad – Sri Lanka Branch, (the “Bank”), is a registered Branch of Public Bank Berhad, a limited liability Company incorporated in Malaysia. Public Bank Berhad – Sri Lanka Branch commenced its business in January 1992 and is approved to carry out both domestic and off- shore banking under the Banking Act No 30 of 1988 of Sri Lanka.

The registered office of the Bank and the principal place of business are both located at No. 340, R.A.De Mel Mawatha, Colombo 3.

1.1.1 Principal activities

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

There have been no significant changes to these principal activities during the financial year.

1.1.2 Number of employees

The number of employees of the Bank as at 31st December 2024 was 61 (2023: 56).



2. BASIS OF PREPARATION

2.1 Statement of compliance

The Financial Statements of the Bank have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/ LKASs) issued by The Institute of Chartered Accountants of Sri Lanka and comply with the requirements of the Banking Act No. 30 of 1988 and amendments and applicable directions. The details of material accounting policies are disclosed in Note 3.

The Bank maintains separate books for Domestic Banking Unit and Foreign Currency Banking Unit. Accompanying financial statements have been prepared by consolidating the financial statements of the Domestic Banking Unit and Foreign Currency Banking Unit.

2.2 Basis of measurement

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

- Liability for defined benefit obligation is recognised as the present value of the defined benefit obligation less the net total of the plan assets, as explained in Note 3.10.3.
- Financial investments measured at Fair Value Through Other Comprehensive Income (FVOCI)

2.3 Going Concern

The directors have made an assessment of the Bank'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 current economic developments, in order make projections for future economic conditions of the environment in which it operates. The main factors that cause uncertainties regarding the application of this principle relate to the unstable economic environment in the country, performance of the bank and the measures adopted by the government to support the recovery of the economy. The board is not aware of any material uncertainties that may cast significant doubt upon the bank's ability continue as a going concern.

Based on the Bank's capital adequacy levels and ability of the Bank to access the liquidity mechanism, the bank estimates that the conditions for the application of the going concern principle in preparation of its financial statements are met. Therefore, the financial statement to be prepared on the going concern basis.

2.4 Management's responsibility for financial statements

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

2.5 Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees, which is the Bank's functional currency.



2.6 Use of significant Accounting Judgments and Assumption and Estimates

The preparation of financial statements in conformity with Sri Lanka Accounting Standards (SLFRSs/LKASs) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgements and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual results may differ from those estimates and judgmental decisions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2.7 Use of estimates and judgements (Continued)

Judgements

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 3.3.1: 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 outstanding.
- Note 3.3.6: Assessment of credit risk establishing the criteria for determining whether credit risk on the financial asset has increased significantly since the initial recognition, determining methodology for incorporating forwardlooking information into measurement of Expected Credit Loss and selection and approval of models used to measure ECL.

Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are included in the following notes;

- Note 3.3.5: Determination of the fair value of financial instruments with significant unobservable inputs.
- Note 3.3.7: Determination of inputs into the Expected Credit Loss measurement model including key assumptions used in estimating recoverable cash flows and incorporating forward-looking information.
- Note 3.5 & 3.8: Property, Plant and Equipment and Right of Use Assets: Key assumptions of economic useful life and residual value.
- Note 3.6: Intangible Assets: Key assumptions of economic useful life and residual value.
- Note 3.12.4.2: Recognition of deferred tax assets.
- Note 3.10: Measurement of defined benefit obligations: key actuarial assumptions.

2.8 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. 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' and subsequent amendments.



3. MATERIAL ACCOUNTING POLICIES

3.1 Changes in Accounting Policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except if mentioned otherwise.

In addition, the Bank adopted Disclosure of Accounting Policies (Amendments to LKAS 1 and IFRS Practice Statement 2) from 1 January 2024. The amendments require disclosure of “material” rather than “significant” , accounting policies assisting entities to provide useful , entity specific accounting policy information that users needs to understand other information in the financial statements. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

Deferred tax related to assets and liabilities arising from a single transaction

The Bank adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12) from 1st January 2024. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. For leases, the Bank is required to recognise the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the Bank applies the amendments to transactions that occur on or after the beginning of the earliest period presented. The Bank previously accounted for deferred tax on leases by applying the ‘integrally linked’ approach, resulting in a similar outcome as under the amendments, except that the deferred tax asset or liability was recognised on a net basis.

Following the amendments, the Bank has recognised a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its right-of-use assets. However, there was no impact on the statement of financial position because the balances qualify for offset under LKAS 12. There was also no impact on the opening retained earnings as at 1st January 2023 as a result of the change. The key impact for the Bank relates to disclosure of the deferred tax assets and liabilities recognised.

3.2 Translation of measurement currency

The Bank uses Sri Lankan Rupees as their measurement currency for Domestic Banking Unit and United State Dollars as their measurement currency for Foreign Currency Banking Unit books.

The translation is performed based on the guidelines in the LKAS 21 “The Effects of Changes in Foreign Exchange Rates” stated below:

- All current assets and current liabilities (i.e including comparatives) are translated at the closing rate of each reporting date.
- Income and expense items for all periods (i.e including comparatives) are translated at month end exchange rates pertaining to each period.
- Equity items other than the net profit or loss for the period are translated at the historical rate existing at the date of each transaction.
- All exchange differences resulting from translation in accordance with the above are recognised in the equity through other comprehensive income.



3.3 Financial assets and financial liabilities

3.3.1 Recognition and initial measurement

The Bank 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 Bank 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, transaction costs that are directly attributable to its acquisition or issue.

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 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 Bank 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 Bank 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.

Business Model Assessment

The Bank 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. 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 Bank'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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.



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.

Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI)

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the bank’s claim to cash flows from specified assets.
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of long-term floating-rate loans for which the Bank has the right to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision.

The Bank has determined that the contractual cash flows of these loans are SPPI because the right varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassification

Financial assets are not reclassified after their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

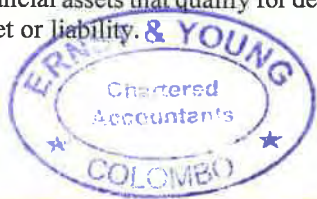
3.3.2 Derecognition

Financial assets

The Bank derecognizes 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 Bank 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 derecognized) 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 Bank is recognised as a separate asset or liability.



The Bank enters transactions whereby it transfers assets recognised on its Statement of Financial Position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

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

3.3.3 Modification of financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank 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 asset are deemed to have expired. In this case, the original financial asset is derecognized, 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 maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank 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 (refer write-off policy). 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 Bank 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 fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.



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.

The Bank applies the categorization of credit facilities into stages for computation of expected credit losses as per the applicable directions issued by Central Bank of Sri Lanka.

Financial liabilities

The Bank derecognizes 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 derecognized and 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.

3.3.4 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in statement of financial position when, and only when the Bank 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.

3.3.5 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 Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with enough frequency and volume to provide pricing information on an ongoing basis.

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at 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 that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at 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.



3.3.6 Impairment

The Bank recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Loans and advances to customers;
- financial assets that are debt instruments;
- Cash and Cash equivalents
- financial guarantee contracts issued; and
- undrawn credit commitments.

No impairment loss is recognised on equity investments.

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

12-month ECL are the portion of 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 a 12-month ECL is recognised are referred to as “Stage 1 financial instruments”.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as “Stage 2 financial instruments”.

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

The measurement of ECL requires the application of significant judgment and increased complexity which include the identification of on-balance sheet and off-balance sheet credit exposures with significant deterioration in credit quality, assumptions used in the ECL models (for exposures assessed individually or collectively). ECL model is developed using historical data, adjusted for current condition and forward looking information such as GDP growth, unemployment rates and inflation the expected future cash flows, forward-looking macroeconomic scenarios (eg. Base case, best case, worst case) are considered, with each scenario assigned a probability weighting.

Model validation: Periodic back testing and validation of ECL models to ensure reliability and accuracy.

Oversight: The risk management committee of Head office oversees the ECL calculation process, ensuring compliance with regulatory standards and internal policies.

Review and approval: annual review of ECL model and assumptions are conducted, with necessary approvals obtained from senior management.



3.3.7 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 Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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 derecognized 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.

Significant Increase in Credit Risk (SICR)

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.

The Bank considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with rebuttable presumption in SLFRS 9.

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

Incorporation of Forward- Looking Information

The Bank incorporates forward looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

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 macro-economic variables and credit risk and credit losses.

The key drivers for credit risk gross domestic product growth, inflation, exchange rates and government debt.

The Bank formulates multiple economic scenarios to reflect base case, best case and worst case.



Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as “Stage 3 financial assets”). A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- 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 reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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 loan that is past due for a period more than 90 days or classified as non-performing under CBSL Direction No. 13 of 2021 is considered credit impaired.

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: as a provision under other liabilities;
- 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 fair value change is disclosed and is recognised in the fair value reserve.

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

Recoveries of amounts previously written off are included in “impairment losses on financial instruments” in the Statement of Profit or Loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

3.4 Cash and cash equivalents

‘Cash and cash equivalents’ include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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



3.5 Property, plant and equipment

Recognition and measurement

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

If significant parts of an item of property, plant or equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised within other income in profit or loss.

Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term.

The estimated useful lives of significant items of property and equipment are as follows: Office

Renovation	5	years
Computer Equipment	5	years
Furniture, Fixture & Fittings	10	years
Air Conditioners & Equipment	6	2/3years
Motor Vehicle	5	years

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

3.6 Intangible assets

Software

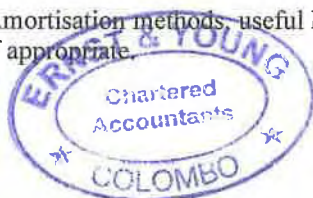
Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalized cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.



3.7 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in profit or loss.

3.8 Leases

Bank acting as a lessee

At inception of a contract, the Bank 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 in exchange of consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into on or after 1st January 2019.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component based on its relative stand-alone price. However, for lease components and accounts for leases and non-lease components as a single lease component.

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

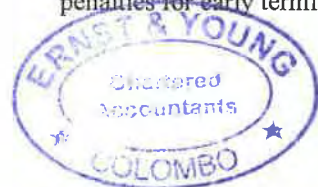
The right-of-use asset is subsequently depreciated using straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses.

If any and adjusted for certain remeasurements of the lease liability.

The 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 implicated in the lease or if that rate cannot be determined, the Bank's incremental borrowing rate.

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
- Exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank 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 change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise an extension option, and penalties for early 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 has been reduced to zero.

3.9 Liabilities and provisions

3.9.1 Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued, and subordinated liabilities are the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits, debt securities issued, and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss.

3.9.1.1 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.9.1.2 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.10 Retirement benefit obligations

3.10.1 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank 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.



3.10.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Employee Provident Fund and Employee Trust Funds covering all employees are recognised as an expense in profit and loss when incurred.

3.10.3 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with LKAS 19 – Employee Benefits. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability recognised in the statement in financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date.

The Bank measures the present value of retirement benefits of gratuity using an internally generated model based on the method as recommended by LKAS 19 – Employee Benefits. Any actuarial gain and losses arising are recognised immediately in Other Comprehensive Income.

The liability is not externally funded nor actuarially valued.

3.12 Statement of profit or loss and other comprehensive income

3.12.1 Interest income and expense

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 the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all 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 liability.

Interest income and expense presented in the statement of comprehensive income includes the interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

3.12.2 Fees and commission

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

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight- line basis over the commitment period.

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



3.12.3 Other expenses

The expenditure incurred on personnel cost, premises, equipment and establishment has been apportioned between the FCBU and the DBU at the rate of 5% and 95% respectively.

3.12.4 Income tax expense

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

The Bank has determined the interest and penalties, if any related to income tax including uncertain tax treatments do not meet the definition of Income tax, and therefore are accounted under LKAS 37 Provision, Contingent Liability and Contingent Assets.

3.12.4.1 Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No.24 of 2017 and the amendments thereto, at the rates specified.

3.12.4.2 Deferred tax

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.

Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is 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. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Where the deferred tax asset relating to the deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Unrecognised deferred tax asset is 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 the temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.



Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax laws of the relevant jurisdiction.

3.12.5 Value Added Tax on financial services

The basis for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

3.15.6 Events occurring after the reporting date

All material subsequent 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.

3.15.7 Statement of Cash Flows

The cash flow statement has been prepared by using the “Indirect Method” of preparing of cash flow statement in accordance with the LKAS 7, Statement of Cash Flows.

Cash and Cash equivalents comprises cash balances, call deposits and placement.

3.15.8 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period for all the amounts in the Financial Statements in order to enhance the understanding of the current period’s Financial Statements.

Certain comparative amounts in the financial statements have been restated and represented. Refer Note 39.1 for details on changes in comparative information.



4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued up to the date of issuance of the Bank's financial statements but are not effective for the current annual reporting period, are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

SLFRS 17 Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts (SLFRS 4) that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The core of SLFRS 17 the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2026, with comparative figures required. Early application is permitted, provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

Amendments to LKAS 21 -Lack of exchangeability

The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking.

The amendments also require disclosure of information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

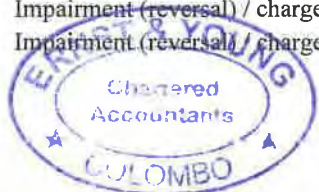
The amendments will be effective for annual reporting periods beginning on or after 1 January 2025. Early adoption is permitted, but will need to be disclosed. When applying the amendments, an entity cannot restate comparative information.



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

5. NET INTEREST INCOME	2024	2023
	Rs.	Rs.
Interest income		
Sri Lanka government securities	451,726,600	811,438,213
Balances with banks	96,198,491	81,809,902
Loans and advances to customers	635,759,578	1,012,191,934
	<u>1,183,684,669</u>	<u>1,905,440,049</u>
Interest expenses		
Deposits from banks	792,917	1,530,081
Deposits from customers	208,282,379	293,824,601
	<u>209,075,297</u>	<u>295,354,682</u>
	<u>974,609,372</u>	<u>1,610,085,367</u>
6. NET FEE AND COMMISSION INCOME		
Fee and commission income		
Trade and remittances	18,983,117	18,765,244
Guarantees	5,932,986	6,059,429
Other fee and commission income	13,852,529	22,198,430
	<u>38,768,632</u>	<u>47,023,103</u>
Fee and commission expenses		
Deposit insurance	3,443,807	3,032,249
Commission	608,817	155,555
Other fee and commission expense	7,505,360	4,634,611
	<u>11,557,985</u>	<u>7,822,417</u>
	<u>27,210,647</u>	<u>39,200,686</u>
7. OTHER OPERATING INCOME		
Processing fees	9,051,050	6,637,241
Dividend income	2,385,695	1,499,060
Other income	15,940,917	18,187,834
Gain on sale of property, plant and equipment	-	385,000
Recovery of loans and advances written off	-	7,000,000
Net exchange gain	36,552,313	65,995,863
	<u>63,929,974</u>	<u>99,704,998</u>
8. IMPAIRMENT (REVERSAL) / CHARGES FOR FINANCIAL ASSETS CARRIED AT AMORTIZED COST		
	2024	2023
	Rs.	Rs.
Loans and advances to customers (Note 8.1)	(118,518,369)	35,717,831
Financial investments measured at amortised cost (Note 17.1)	-	-
Cash and cash equivalents (Note 14.1)	494,916	(7,346,832)
Undrawn credit commitments and financial guarantees (Note 29.1)	(4,398,315)	(10,165,262)
Direct write offs to P/L	2,576,437	0
	<u>(119,845,330)</u>	<u>18,205,737</u>
8.1 Loans and advances to customers		
Impairment (reversal) / charges - Stage 1 (Note 16.2.1)	(114,674,889)	(35,655,036)
Impairment (reversal) / charges - Stage 2 (Note 16.2.1)	(5,328,160)	37,491,868
Impairment (reversal) / charges - Stage 3 (Note 16.2.1)	1,484,680	33,880,999
	<u>(118,518,369)</u>	<u>35,717,831</u>

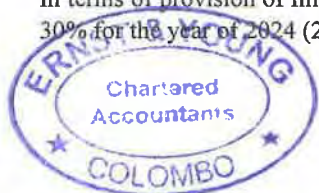


Public Bank Berhad – Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

9. DEPRECIATION AND AMORTIZATION	2024 Rs.	2023 Rs.
Property, plant and equipment (Note 19)	28,817,138	23,781,993
Intangible assets (Note 20)	3,593,608	3,814,558
Right-of-use asset (Note 21)	30,104,646	22,298,410
	<u>62,515,392</u>	<u>49,894,961</u>
10. RESULTS FROM OPERATING ACTIVITIES		
<i>Results from operating activities is stated after charging all the expenses including the following;</i>		
Auditor's remuneration		
Audit services	2,000,000	1,728,000
Audit related services	1,000,000	821,700
Non audit services	2,400,000	599,500
Depreciation and amortisation	62,515,392	49,894,961
Interest on lease liability (Note 26)	15,736,605	15,197,192
Personnel costs (Note 10.1)	231,457,474	192,055,211
10.1 Personnel costs		
Wages and salaries	137,173,974	125,748,881
Contribution to defined contribution plans		
Employees' Provident Fund	14,448,363	12,522,004
Employees' Trust Fund	3,612,103	3,146,185
Provision for defined benefit plans (Note 28)	7,838,932	7,157,159
Other staff expenses	68,384,102	43,480,982
	<u>231,457,474</u>	<u>192,055,211</u>
11. VALUE ADDED TAX (VAT) ON FINANCIAL SERVICES AND SOCIAL CONTRIBUTION LEVY		
	2024 Rs.	2023 Rs.
Value Added Tax (VAT) on financial services	133,955,168	208,088,064
Social Contribution Levy	15,118,444	37,100,000
	<u>149,073,613</u>	<u>245,188,064</u>
12. INCOME TAX EXPENSES	2024 Rs.	2023 Rs.
Income tax for the year (Note 12.1)	137,621,662	358,458,252
Over provision in respect of previous year (Note 27)	-	10,469,244
Deferred tax charge/ (reversal) for the year (Note 22)	38,532,049	(18,004,873)
	<u>176,153,711</u>	<u>350,922,623</u>

In terms of provision of Inland Revenue Act No. 24 of 2017 and amendments thereto, the Bank is liable for income tax at 30% for the year of 2024 (2023 - for the Income Tax 30% & Dividend income tax at 15%).



12. INCOME TAX EXPENSES (Contd...)

	2024	2023
	Rs.	Rs.
12.1 Reconciliation of accounting profit to income tax expense		
Accounting profit before tax	423,732,857	938,903,979
Less: Income from other sources	(2,385,695)	(1,499,060)
Business income	421,347,162	937,404,919
Aggregate disallowable expenses	145,244,401	344,215,416
Aggregate allowable expenses	(107,852,688)	(86,759,496)
Total statutory income from business	458,738,874	1,194,860,839
<i>Taxable Income</i>	<u>458,738,874</u>	<u>1,194,860,839</u>
Income tax at 14%	-	-
Income tax at 15%	-	-
Income tax at 24%	-	-
Income tax at 30%	137,621,662	358,458,252
	<u>137,621,662</u>	<u>358,458,252</u>

12.2 Reconciliation of effective tax rate	2024		2023	
	%	Rs.	%	Rs.
Profit for the year		247,579,146		575,722,891
Income tax expenses		176,153,711		345,668,994
Profit before taxation		423,732,857		921,391,885
Tax using the domestic corporation tax rate	30%	127,119,857	30%	276,417,566
Net non-deductible expenses	3%	11,217,514	8%	78,286,118
Tax exempt income	0%	(715,709)	0%	(1,499,060)
Adjustments for prior years	0%	-	1%	10,469,244
Recognition of previously unrecognised deductible temporary differences.	9%	38,532,049	-2%	(18,004,873)
Total tax expense	42%	<u>176,153,712</u>	38%	<u>345,668,995</u>

13. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

13.1 Classification of financial assets and liabilities as per SLFRS 9 - "Financial instruments"

	2024			
	Financial assets measured at fair value through profit or loss (FVTPL)	Financial assets measured at fair value through other comprehensive income (FVOCI)	Financial assets measured at amortised cost	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and cash equivalents	-	-	2,086,993,924	2,086,993,924
Statutory deposit with Central Bank of Sri Lanka	-	-	23,758,712	23,758,712
Loans and advances to customers	-	-	5,490,115,372	5,490,115,372
Equity instruments	-	43,992,496	-	43,992,496
Government Securities	-	-	4,335,592,447	4,335,592,447
Total financial assets	<u>-</u>	<u>43,992,496</u>	<u>11,936,460,455</u>	<u>11,980,452,950</u>

13. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd...)

13.1 Classification of financial assets and liabilities as per SLFRS 9 - "Financial instruments" (Contd...)

Liabilities	Financial liabilities measured at amortised cost		Total
	Rs.	Rs.	
Deposits from banks			
- Borrowings under repurchase agreements	8,382,378		8,382,378
- Other deposits from banks	2,887,175		2,887,175
Deposits from customers	3,648,758,391		3,648,758,391
Lease liability	146,656,123		146,656,123
Total financial liabilities	3,806,684,067		3,806,684,067

	2023			
	Financial assets measured at fair value through profit or loss (FVTPL)	Financial assets measured at fair value through other comprehensive income (FVOCI)	Financial assets measured at amortised cost	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and cash equivalents	-	-	2,352,693,562	2,352,693,562
Statutory deposit with Central Bank of Sri Lanka	-	-	21,837,799	21,837,799
Loans and advances to customers	-	-	5,528,173,795	5,528,173,795
Equity instruments	-	38,888,724	-	38,888,724
Government securities	-	-	3,689,750,323	3,689,750,323
Total financial assets	-	38,888,724	11,592,455,479	11,631,344,202

Liabilities	Financial liabilities measured at amortised cost		Total
	Rs.	Rs.	
Deposits from banks			
- Borrowings under repurchase agreements	8,603,138		8,603,138
- Other deposits from banks	5,658,406		5,658,406
Deposits from customers	3,417,309,420		3,417,309,420
Lease liability	132,716,176		132,716,176
Total financial liabilities	3,564,287,141		3,564,287,141



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

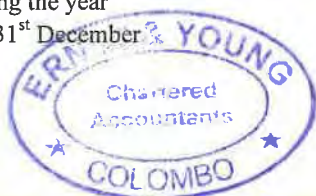
14. CASH AND CASH EQUIVALENTS	2024 Rs.	2023 Rs.
Cash and balances with banks	248,499,207	263,316,474
Deposits with banks	387,050,572	378,688,898
Placements with head office and other banks	1,454,569,903	1,713,319,032
Cash and cash equivalents for the cash flow purpose	2,090,119,682	2,355,324,404
Allowances for expected credit losses (Note 14.1)	(3,125,758)	(2,630,842)
Net cash and cash equivalents	<u>2,086,993,924</u>	<u>2,352,693,562</u>
14.1 Movement in expected credit loss allowance during the year		
Stage 1		
Balance as at 1 st January	2,630,842	9,977,674
(Reversal) / Charge during the year	494,916	(7,346,832)
Balance as at 31 st December	<u>3,125,758</u>	<u>2,630,842</u>
15. STATUTORY DEPOSIT WITH CENTRAL BANK OF SRI LANKA		
Central Bank of Sri Lanka	23,758,712	21,837,799
	<u>23,758,712</u>	<u>21,837,799</u>
16. FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES		
	2024 Rs.	2023 Rs.
Gross loans and advances (Note 16.1)		
Stage 1	4,736,851,584	4,348,430,408
Stage 2	773,712,178	978,881,442
Stage 3	104,702,523	444,668,246
	<u>5,615,266,285</u>	<u>5,771,980,096</u>
Less: Expected credit loss allowance (Note 16.2)		
Stage 1	34,399,395	149,189,052
Stage 2	52,212,678	57,545,942
Stage 3	38,538,840	37,071,307
	<u>125,150,913</u>	<u>243,806,301</u>
Net loans and advances	<u>5,490,115,372</u>	<u>5,528,173,795</u>
16.1 Analysis of gross loans and advances	2024 Rs.	2023 Rs.
16.1.1 By product		
Overdrafts	814,316,482	782,085,628
Staff loans	33,649,239	44,550,685
Vehicle loans	234,653,616	64,118,864
Ordinary and term loans	3,706,717,614	4,120,365,370
Customer housing loans	653,288,872	560,411,281
Import finance	119,824,765	118,220,053
Bills Overdue	3,018,020	-
Interest receivable	50,190,349	82,228,215
	<u>5,615,658,958</u>	<u>5,771,980,094</u>



16. FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES (Contd...)**16.1.2 By industry**

Industry wise analysis for Bank's credit portfolio (Gross loans and advances) given below reflects the Bank's exposure to credit risk in the various industries of the economy.

	2024 Rs.	2023 Rs.
Agriculture	1,227,448,382	1,257,833,114
Manufacturing	1,054,696,423	1,519,100,234
Construction	1,402,622,692	1,016,677,442
Tourism	138,910,390	87,686,595
Transport	54,908,677	21,380,633
Traders	908,655,775	805,163,627
Real estate	11,472,808	13,665,560
Financial and business services	-	153,614,154
Information technology	141,033,715	66,909,982
Other services	21,642,919	128,287,957
Other customers	653,874,502	701,660,798
	<u>5,615,266,284</u>	<u>5,771,980,097</u>
16.1.3 By currency		
Sri Lankan Rupee	5,459,669,277	5,542,715,966
United States Dollar	155,989,682	229,264,130
	<u>5,615,658,958</u>	<u>5,771,980,096</u>
16.2 Movement in expected credit loss on loans and advances		
Balance as at 1 st January	243,806,301	208,264,544
(Reversal)/ Charge to profit or loss	(118,518,369)	43,147,430
Write-off during the year	-	(7,429,600)
Effect of foreign currency movements	(137,021)	(176,073)
Balance as at 31 st December	<u>125,150,912</u>	<u>243,806,301</u>
16.2.1 Movement in expected credit loss		
Stage 1		
Balance as at 1 st January	149,189,052	184,844,088
(Reversal)/ Charge to profit or loss	(114,674,889)	(35,655,036)
Effect of foreign currency movements	(114,769)	-
Balance as at 31 st December	<u>34,399,395</u>	<u>149,189,052</u>
Stage 2		
Balance as at 1 st January	57,545,943	20,054,074
(Reversal)/ Charge to profit or loss	(5,328,160)	37,491,868
Effect of foreign currency movements	(5,105)	-
Balance as at 31 st December	<u>52,212,678</u>	<u>57,545,943</u>
Stage 3		
Balance as at 1 st January	37,071,307	3,366,382
(Reversal)/ Charge to profit or loss	1,484,680	41,310,598
Effect of foreign currency movements	(17,147)	(176,073)
Write-off during the year	-	(7,429,600)
Balance as at 31 st December	<u>38,538,840</u>	<u>37,071,307</u>
Total	<u>125,150,912</u>	<u>243,806,302</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

17. FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

	2024 Rs.	2023 Rs.
Sri Lanka Government Securities - Treasury bills	3,935,514,150	3,629,708,043
Securities purchased under re-sale agreements	400,078,297	60,042,280
Total financial investments measured at amortised cost	4,335,592,447	3,689,750,323
Expected credit loss allowance (Note 17.1)	-	-
	<u>4,335,592,447</u>	<u>3,689,750,323</u>

17.1 Movement in expected credit loss allowance

Stage 1

Balance as at 1 st January	-	-
(Reversal) / Charge to profit or loss	-	-
Balance as at 31 st December	<u>-</u>	<u>-</u>

Treasury bills and bonds denominated in local currency, issued by the Government of Sri Lanka, are classified under Stage 1 based on the Banking Act Direction No. 14 of 2021, Classification, Recognition and Measurement of Financial Assets Other than Credit Facilities in Licensed Banks, issued by the Monetary Board, Central Bank of Sri Lanka. Based on the said Direction, a LGD of zero is applied to these Government securities, accordingly, the Bank's overall Expected Credit Loss (ECL) on these instruments is effectively zero.

18. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2024 Rs.	2023 Rs.
Unquoted equities (Note 18.1)	43,992,496	38,888,724
	<u>43,992,496</u>	<u>38,888,724</u>

18.1 Movement in unquoted equities

Balance as at 1 st January	38,888,724	31,145,345
Net change in fair value of equity investments	5,103,772	7,743,379
Balance as at 31 st December (Note 18.2)	<u>43,992,496</u>	<u>38,888,724</u>

18.2 Unquoted equities

	2024		
	Number of ordinary shares	Cost Rs.	Fair Value Rs.
Credit Information Bureau of Sri Lanka	300	30,000	7,203,055
Lanka Clear (Private) Limited	100,000	1,000,000	36,789,440
Lanka Financial Services Bureau Limited	200,000	2,000,000	-
		<u>3,030,000</u>	<u>43,992,496</u>
	2023		
	Number of ordinary shares	Cost Rs.	Fair Value Rs.
Credit Information Bureau of Sri Lanka	300	30,000	7,441,805
Lanka Clear (Private) Limited	100,000	1,000,000	31,446,918
Lanka Financial Services Bureau Limited	200,000	2,000,000	-
		<u>3,030,000</u>	<u>38,888,724</u>

The following table shows investments in equity securities for which the Bank elected to present the changes in the fair value in OCI. The election was made because the investments are expected to be held for the long term for strategic purposes.

	Fair value at 31 December 2024	Dividend income recognised 2024
Credit Information Bureau of Sri Lanka	7,203,055	538,560
Lanka Clear (Private) Limited	36,789,440	960,500
Lanka Financial Services Bureau Limited	-	-
	<u>43,992,496</u>	<u>1,499,060</u>

None of these strategic investments were disposed of during the year ended 31 December 2023 (2022 - Nil), and there were no transfer of any cumulative gain or loss within equity relating to these investments (2022 - Nil). The changes in fair value on these investments was Rs. 7,743,379 (2022 - Rs. 3,979,029).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

19. PROPERTY, PLANT AND EQUIPMENT

Cost	Office Renovations		Computer Equipment		Equipment and Furniture		Office Equipment		Motor Vehicles		Air Conditioners		Safes		Capital work in progress		Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2023	59,444,114	117,988,219	10,435,468	29,272,201	25,040,840	10,696,978	3,221,648	26,241,956	282,341,424	-	-	-	-	-	-	-	-	-
Additions during the year	-	45,938,953	1,279,800	2,938,449	-	-	-	2,938,449	66,259,874	-	-	-	-	-	-	-	-	-
Disposals during the year	-	(1,198,400)	-	(352,688)	-	-	-	(352,688)	(1,551,088)	-	-	-	-	-	-	-	-	-
Transfers	561,600	20,261,224	1,174,000	(32,000)	-	-	-	(32,000)	(576,828)	-	-	-	-	-	-	-	-	-
Write-offs during the year	-	(5,143,758)	(696,864)	(32,000)	-	-	-	(32,000)	(5,872,828)	-	-	-	-	-	-	-	-	-
Balance as at 31st December 2023	60,005,714	177,846,237	12,192,404	31,825,962	25,040,840	10,696,978	3,221,648	31,825,962	(5,872,622)	-	-	-	-	-	-	-	-	-
Balance as at 1 st January 2024	60,005,714	177,846,237	12,192,404	31,825,962	25,040,840	10,696,978	3,221,648	31,825,962	340,600,760	-	-	-	-	-	-	-	-	-
Additions during the year	-	8,334,337	-	184,080	-	-	-	184,080	340,600,760	-	-	-	-	-	-	-	-	-
Disposals during the year	-	-	-	-	-	-	-	-	15,397,576	-	-	-	-	-	-	-	-	-
Transfers	-	-	780,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs during the year	-	-	-	-	-	-	-	-	(25,870,134)	-	-	-	-	-	-	-	-	-
Balance as at 31 st December 2024	60,005,714	186,180,575	12,972,404	32,010,042	25,040,840	10,696,978	3,221,648	32,010,042	330,128,202	-	-	-	-	-	-	-	-	-
Accumulated Depreciation																		
Balance as at 1st January 2023	59,444,114	90,621,134	8,711,827	27,281,589	18,025,840	10,115,240	3,203,157	27,281,589	217,402,900	-	-	-	-	-	-	-	-	-
Charge for the year	102,960	17,855,914	610,611	1,092,414	3,715,000	386,602	18,491	1,092,414	23,781,993	-	-	-	-	-	-	-	-	-
Disposals during the year	-	(1,198,400)	-	(352,688)	-	-	-	(352,688)	(1,551,088)	-	-	-	-	-	-	-	-	-
Write-offs during the year	-	(5,143,758)	(696,864)	(32,000)	-	-	-	(32,000)	(5,872,622)	-	-	-	-	-	-	-	-	-
Balance as at 31st December 2023	59,547,074	102,134,890	8,625,574	27,989,314	21,740,840	10,501,842	3,221,648	27,989,314	233,761,184	-	-	-	-	-	-	-	-	-
Balance as at 1st January 2024	59,547,074	102,134,890	8,625,574	27,989,314	21,740,840	10,501,842	3,221,648	27,989,314	233,761,184	-	-	-	-	-	-	-	-	-
Charge for the year	112,320	23,564,342	614,118	1,061,519	3,300,000	164,839	-	1,061,519	28,817,138	-	-	-	-	-	-	-	-	-
Disposals during the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs during the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31st December 2024	59,659,394	125,699,232	9,239,692	29,050,834	25,040,840	10,666,682	3,221,648	29,050,834	262,578,321	-	-	-	-	-	-	-	-	-
Written down value																		
Balance as at 31 st December 2024	346,320	60,481,343	3,732,712	2,959,209	(0)	30,296	-	2,959,209	67,549,880	-	-	-	-	-	-	-	-	-
Balance as at 31 st December 2023	458,640	75,711,348	3,566,830	3,836,648	3,300,000	195,136	-	3,836,648	106,839,577	-	-	-	-	-	-	-	-	-



Public Bank Berhad – Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

19. PROPERTY, PLANT AND EQUIPMENT (Contd...)

19.1 Title restriction on property, plant & equipment

There were no restrictions existed on the title of the Property, Plant & Equipment of the Bank as at the Reporting date.

19.2 Capital work in progress

The balance of Rs.19,594,751/- as at 31.12.2024 under Capital work in progress consist of the advance payments made for acquisition of software of the bank.

19.3 Fully depreciated assets

The initial costs of fully depreciated property, plant and equipment as at 31st December which are still in use are as follows;

	2024 Rs.	2023 Rs.
Office Renovations	59,444,114	59,444,114
Computer Equipment	100,936,498	40,373,887
Equipment and Furniture	8,100,585	5,949,829
Office Equipment	25,320,872	24,292,444
Motor Vehicles	25,040,840	7,040,840
Air Conditioners	10,575,752	8,691,126
Safes	3,221,649	3,221,649
	<u>232,640,310</u>	<u>149,013,889</u>

20. INTANGIBLE ASSETS - SOFTWARE

Cost

Balance as at 1 st January	309,397,792	306,412,976
Additions during the year		3,086,574
Transfers during the year from Property, plant and equipment	6,275,383	576,828
Write-offs during the year		(678,586)
Balance as at 31 st December	<u>315,673,176</u>	<u>309,397,792</u>

Accumulated amortisation

Balance as at 1 st January	302,282,832	299,146,860
Amortisation for the year	3,593,608	3,814,558
Write-offs during the year		(678,586)
Balance as at 31 st December	<u>305,876,439</u>	<u>302,282,832</u>

Written down value

	<u>9,796,736</u>	<u>7,114,960</u>
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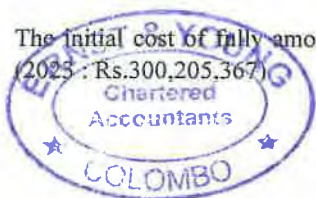
Intangible Asset Work in Progress

Transfers during the year from PPE WIP to IP WIP	19,594,751	
Balance as at 31 st December	<u>19,594,751</u>	<u>-</u>

Total Intangible Assets

	<u>29,391,487</u>	<u>7,114,960</u>
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20.1 The initial cost of fully amortized intangible assets as at 31st December 2024 which are still in use is Rs.300,770,053 (2023 : Rs.300,205,367)



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

21. RIGHT-OF-USE ASSET	2024	2023
	Rs.	Rs.
Cost		
Balance as at 1 st January	201,478,452	200,391,852
Additions during the year	45,973,280	7,176,600
Termination of contract	(35,093,249)	(6,090,000)
Adjustment	-	-
Balance as at 31 st December	<u>212,358,483</u>	<u>201,478,452</u>
Accumulated amortisation		
Balance as at 1 st January	97,998,977	81,790,567
Amortisation for the year	30,104,646	22,298,410
Termination of contract	(35,093,249)	(6,090,000)
Adjustment	-	-
Balance as at 31 st December	<u>93,010,375</u>	<u>97,998,977</u>
Net Carrying Amount	<u>119,348,108</u>	<u>103,479,475</u>
22. DEFERRED TAX ASSETS		
Balance as at 1 st January	72,871,635	51,533,842
<i>Recognized in profit or loss</i>		
Impact on changes in tax rate	-	-
(Reversed)/ recognized during the year	(38,532,049)	18,004,873
<i>Recognized in other comprehensive income</i>		
Deferred tax on actuarial (gain)/loss on retirement benefits obligations	9,293,487	3,332,920
Balance as at 31 st December	<u>43,633,074</u>	<u>72,871,635</u>

22.1 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the followings;

	2024		2023	
	Deductible/ (Taxable) temporary difference	Tax Effect	Deductible/ (Taxable) temporary difference	Tax Effect
	Rs.	Rs.	Rs.	Rs.
Property, plant and equipment and intangible assets	(18,633,363)	(5,590,009)	(24,108,195)	(7,232,459)
Financial assets measured at fair value through other comprehensive income	(24,641,011)	(7,392,303)	(23,288,864)	(6,986,659)
Right-of-use asset	(119,348,111)	(35,804,432)	(103,479,475)	(31,043,842)
Lease liability	149,480,787	44,844,237	132,716,176	39,814,854
Retirement benefits obligations	58,981,017	17,694,305	37,435,227	11,230,568
Expected credit loss on loans	99,604,256	29,881,277	223,630,576	67,089,173
	<u>145,443,575</u>	<u>43,633,074</u>	<u>242,905,445</u>	<u>72,871,635</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

23. OTHER ASSETS	2024 Rs.	2023 Rs.
Prepayments	174,356,834	189,079,436
Deposits	8,861,668	8,803,480
	<u>183,218,502</u>	<u>197,882,916</u>
24. DEPOSITS FROM BANKS		
Borrowings under repurchase agreements	8,382,378	8,603,138
Other deposits from banks	2,887,175	5,658,406
	<u>11,269,553</u>	<u>14,261,544</u>
25. DEPOSITS FROM CUSTOMERS		
Retail customers (Note 25.1)	3,292,931,910	3,109,069,050
Corporate customers (Note 25.2)	310,858,586	234,593,682
	<u>3,603,790,496</u>	<u>3,343,662,732</u>
Interest payable	44,967,895	73,646,688
	<u>3,648,758,391</u>	<u>3,417,309,420</u>
25.1 Retail customers		
Demand deposits (current accounts)	447,172,486	366,045,039
Savings deposits	492,788,950	455,313,325
Fixed deposits	2,348,166,472	2,280,767,865
Call deposits	2,500,000	-
Other deposits	2,304,001	6,942,821
	<u>3,292,931,910</u>	<u>3,109,069,050</u>
25.2 Corporate customers		
Demand deposits (current accounts)	26,400,467	24,431,968
Savings deposits	201,477,695	108,889,653
Fixed deposits	81,092,535	96,692,172
Other deposits	1,887,889	4,579,889
	<u>310,858,586</u>	<u>234,593,681</u>
25.3 Analysis by product		
Demand deposits (current accounts)	473,572,953	390,477,007
Savings deposits	694,266,645	564,202,978
Fixed deposits	2,429,259,008	2,377,460,037
Call deposits	2,500,000	-
Other deposits	4,191,890	11,522,710
	<u>3,603,790,496</u>	<u>3,343,662,732</u>
25.4 Analysis by currency		
Sri Lankan Rupee	2,853,774,430	2,425,826,795
United States Dollar	721,689,655	882,137,167
Sterling Pound	26,369,370	31,871,808
Singapore Dollar	529,426	1,584,421
Australian Dollar	727,666	1,148,359
Euro	607,580	981,682
Japanese Yen	92,369	112,500
	<u>3,603,790,496</u>	<u>3,343,662,732</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

26. LEASE LIABILITY	2024 Rs.	2023 Rs.
Balance as at 1 st January	132,716,176	138,585,299
Additions during the year	30,973,280	7,176,600
Interest charges during the year	15,736,605	15,197,192
Lease payments during the year	(32,769,938)	(28,242,914)
Adjustments / re-measurements	-	-
Balance as at 31 st December	<u>146,656,123</u>	<u>132,716,176</u>
26.1 Analysis of impact		
Amount recognized in profit or loss	15,736,605	15,197,192
Amount recognized in statement of cash flows	(32,769,938)	(28,242,914)
26.2 Maturity Analysis		
Non-current	110,383,357	124,912,216
Current	36,272,767	7,803,960
	<u>146,656,123</u>	<u>132,716,176</u>
26.3 Maturity analysis based on contractual undiscounted CF's		
Less than one year	50,315,550	22,213,940
One to five years	114,010,591	124,604,360
More than five year	29,738,915	44,460,697
Total undiscounted lease liabilities	<u>194,065,057</u>	<u>191,278,997</u>
27. CURRENT TAX LIABILITY		
Balance as at 1 st January	175,229,165	127,836,302
Provision for the year (Note 12.1)	137,621,662	358,458,252
Over provision in respect of previous year		10,469,244
Payments made during the year	(245,388,303)	(321,534,633)
	<u>67,462,524</u>	<u>175,229,165</u>
28. RETIREMENT BENEFIT OBLIGATIONS		
Balance as at 1 st January	37,435,227	24,397,138
Current service cost	4,546,378	2,897,779
Interest cost	3,292,554	4,259,380
Actuarial (gain)/loss recognized in the other comprehensive income	30,978,291	11,109,733
Payments during the year	(17,271,433)	(5,228,803)
Balance as at 31 st December	<u>58,981,017</u>	<u>37,435,227</u>



Public Bank Berhad – Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

28. RETIREMENT BENEFIT OBLIGATIONS (Contd...)

28.1 The total amount charged to Statement of Profit or loss and other comprehensive income in respect of retirement benefits obligations is made up as follows;

	2024	2023
	Rs.	Rs.
Current service cost	4,546,378	2,897,779
Interest cost	3,292,554	4,259,380
Recognized in profit or loss	<u>7,838,932</u>	<u>7,157,159</u>
Actuarial (gain)/loss	30,978,291	11,109,733
Recognized in other comprehensive income	<u>30,978,291</u>	<u>11,109,733</u>

28.2 Actuarial Assumption

LKAS 19 - Employee Benefit requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit obligation as per Projected Unit Credit Method. The Bank has used internally generated model in order to determine the present value of the retirement benefit obligation as at the reporting date. The following key assumptions were made in computing the retirement benefit obligation as at the reporting date.

	2024	2023
i.) Discount rate	11.60%	12.20%
ii.) Annual salary increment rate	15.00%	8.00%
iii.) Staff turnover rate	16.29%	17.05%

Since bond market is volatile, bank has re-evaluate the assumptions used as at the reporting date (31st December 2024) together with the respective sensitivity analysis for discount rate.

Further bank has ensured that other actuarial assumptions as at the reporting date represent current micro economic conditions (e.g. future salary increment rate). The discount rate used as at 31 December 2024 was determined with reference to applicable market interest rate on government securities adjusted for anticipate a long term rate of inflation and other factors where applicable.

28.3 Sensitivity Analysis

The calculation of the retirement benefit obligation is sensitive to the assumptions set out above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by one percent.

	Retirement benefit obligation	
	+ 1%	- 1%
	Rs.	Rs.
Discount rate	(2,341,022)	2,472,810
Salary increment rate	2,376,503	(2,293,038)
Staff turnover rate	(318,743)	346,988



Public Bank Berhad – Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2024

29. OTHER LIABILITIES	2024 Rs.	2023 Rs.
Accrued expenses	30,241,354	24,974,472
Other payables	39,383,174	15,295,410
Amount due to head office	174,233,981	167,796,499
Expected credit loss allowance on undrawn credit commitments and financial guarantees (Note 29.1)	9,866,425	14,264,740
	<u>253,724,934</u>	<u>222,331,121</u>

29.1 Expected credit loss allowance on undrawn credit commitments and financial guarantees

	2024 Rs.	2023 Rs.
Balance as at 1 st January	14,264,740	24,430,002
Charge / (reveral) to profit or loss during the year	(4,398,315)	(10,165,262)
Balance as at 31 st December	<u>9,866,425</u>	<u>14,264,740</u>

30. ASSIGNED CAPITAL

Balance as at 31 st December	<u>3,792,318,132</u>	<u>3,792,318,132</u>
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31. STATUTORY RESERVE FUND

Balance as at 1 st January	179,424,130	150,025,062
Transfer during the year	12,378,957	29,399,068
Balance as at 31 st December	<u>191,803,087</u>	<u>179,424,130</u>

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividends or any profits that are transferred to elsewhere, until the reserve is equal to 50% of the Bank's assigned capital.

32. FCBU REVALUATION RESERVE

	2024 Rs.	2023 Rs.
Balance as at 1 st January	714,180,790	854,490,722
Gain on translation of FCBU	(114,506,768)	(140,309,932)
Balance as at 31 st December	<u>599,674,022</u>	<u>714,180,790</u>

The Bank maintains equity reserves in foreign currencies amounting to 3,581,162 USD which is converted into Sri Lankan Rupees at reporting date using the year end exchange rate. Gain or loss on this translation is transferred to FCBU revaluation reserve.

33. OTHER RESERVES

	2024 Rs.	2023 Rs.
Balance as at 1 st January	35,858,724	28,115,345
Net gains on financial assets measured at FVOCI	5,103,773	7,743,379
Balance as at 31 st December	<u>40,962,497</u>	<u>35,858,724</u>

Other reserves include the fair value changes on the financial assets measured at fair value through other comprehensive income.

Public Bank Berhad – Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2024

34. COMMITMENTS AND CONTINGENT LIABILITIES

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

34.1 Commitments	2024 Rs.	2023 Rs.
Acceptances	74,488,097	18,173,700
Guarantees	521,982,004	423,819,411
Bills for collection	109,236,840	51,256,116
Letters of credit	-	52,425,500
	<u>705,706,941</u>	<u>545,674,727</u>
Contingent liabilities		
Undrawn loans and advances	1,656,900,027	1,601,050,331
	<u>1,656,900,027</u>	<u>1,601,050,331</u>
Total contingent liabilities and commitments	<u>2,362,606,968</u>	<u>2,146,725,058</u>

34.2 Litigations against the bank

There were no pending litigation of a material nature against the Bank as at the reporting date.

34.3 Capital commitments

The Bank has, under the instructions of its Head Office, committed itself to upgrade its computer equipments and other fixed assets at a total cost of Rs.45,350,000/- as at 31st December 2024. (2023 : Rs.36,500,000/-)

35. RELATED PARTY DISCLOSURES

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 – 'Related Party Disclosures'. Loans and advances to all staff members including Key Management Personnel (KMP) are at uniformly applicable concessionary rates.

35.1 Transactions with head office

Details of the transactions and balances with Public Bank Berhad Head Office in Malaysia during the year are as follows.

Nature of transaction	Transaction value		Balance as at 31 st December	
	2024	2023	2024	2023
	Rs.	Rs.	Rs.	Rs.
Amount due to head office	6,437,482	34,886,333	174,233,981	167,796,499
Placements	8,499,471,500	7,199,922,800	1,450,813,250	1,695,524,000
Borrowing	-	323,230,000	-	-
Items in the Statement of Profit or Loss			2024	2023
			Rs.	Rs.
Interest income			80,144,833	78,667,026
Interest expenses			0	1,754,486
Other operating expenses			6,437,482	34,886,333



Public Bank Berhad – Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

35. RELATED PARTY DISCLOSURES (Contd...)

35.2 Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosure, Key Management Personnel (KMP) are those having authority and responsibility for planning, directing, and controlling the activities of the entity. Accordingly, Country Head, Business Development Manager, Banking Service Manager, Head of Risk Management, Head of Finance, Head of Credit, Head of Trade Finance and Compliance Officer of the Public Bank Berhad - Sri Lanka Branch have been identified as Key Management Personnels of the Bank.

Compensation paid to key management personnel of the Bank is as follows:

	2024 Rs.	2023 Rs.
Statement of Profit or Loss (Income Statement)		
Short term employee benefits	901,688	64,145,101
Post employment benefits	8,400,865	8,400,865
Statement of Financial Position		
Loans and advances	1,084,890	954,167
Deposits	48,575,925	36,787,570

No impairment losses have been recorded against balance outstanding during the

35.3 Accommodation as a percentage of Bank's regulatory capital

Direct and indirect accommodation (%)	0.00%	0.00%
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36. MATURITY ANALYSIS

36.1 Maturity analysis based on discounted cash flows

An analysis of the total assets and total liabilities employed by the Bank as at 31st December 2024 based on the remaining period at the reporting date to the respective contractual maturity dates are given below:

	Less than 1 year Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.12.2024 Rs.	Total as at 31.12.2023 Rs.
Assets						
Cash and cash equivalents	2,086,993,924	-	-	-	2,086,993,924	2,352,693,562
Statutory deposit with Central Bank of Sri Lanka	23,758,712	-	-	-	23,758,712	21,837,799
Financial assets measured at amortised cost						
- Loans and receivables	1,064,349,594	991,781,396	618,467,741	2,940,667,554	5,615,266,285	5,771,980,096
- Expected credit loss allowance	-	-	-	-	(125,150,913)	(243,806,301)
- Debt and other instruments	4,335,592,447	-	-	-	4,335,592,447	3,689,750,323
Financial assets measured at FVOCI						
Right-to-use asset	30,746,483	47,496,752	26,769,102	14,335,772	119,348,108	103,479,475
Property, plant and equipment	-	-	-	67,549,880	67,549,880	106,839,577
Intangible assets	-	-	29,391,487	-	29,391,487	7,114,960
Deferred tax assets	-	-	-	43,633,074	43,633,074	72,871,635
Other assets	183,218,502	-	-	-	183,218,502	197,882,916
Total assets	7,724,659,662	1,039,278,148	674,628,330	3,110,178,775	12,423,594,000	12,119,532,766
Liabilities and equity						
Liabilities						
Deposits from banks	11,269,553	-	-	-	11,269,553	14,261,544
Deposits from customers	3,648,758,391	-	-	-	3,648,758,391	3,417,309,420
Current tax liability	67,462,524	-	-	-	67,462,524	175,229,165
Retirement benefit obligations	4,617,956	5,372,200	12,457,321	36,533,540	58,981,017	37,435,227
Lease liability	36,272,767	33,811,696	49,266,514	27,305,146	146,656,123	132,716,176
Other liabilities	253,724,934	-	-	-	253,724,934	222,331,120
Total liabilities	4,022,106,124	39,183,896	61,723,835	63,838,686	4,186,852,542	3,999,282,652
Equity						
Assigned capital	-	-	-	3,792,318,132	3,792,318,132	3,792,318,132
Statutory reserve fund	-	-	-	191,803,087	191,803,087	179,424,130
FCBU revaluation reserve	-	-	-	599,674,022	599,674,022	714,180,790
Other reserves	-	-	-	40,962,497	40,962,497	35,858,724
Retained earnings	-	-	-	3,611,983,722	3,611,983,722	3,398,468,338
Total equity	-	-	-	8,236,741,460	8,236,741,460	8,120,250,114
Total equity and liabilities	4,022,106,124	39,183,896	61,723,835	8,300,580,146	12,423,594,001	12,119,532,766

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

36. MATURITY ANALYSIS (Contd...)

36.1 Maturity analysis based on discounted cash flows (Contd...)

An analysis of the total assets and total liabilities employed by the Bank as at 31st December 2023 based on the remaining period at the reporting date to the respective contractual maturity dates are given below:

	Less than 1 year Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.12.2024 Rs.
Assets					
Cash and cash equivalents	2,352,693,562	-	-		2,352,693,562
Statutory deposit with Central Bank of Sri Lanka	21,837,799	-	-		21,837,799
Financial assets measured at amortised cost					
- Loans and receivables	1,887,319,125	466,376,031	300,293,317	3,117,991,624	5,771,980,097
- Expected credit loss allowance					(243,806,301)
- Debt and other instruments	3,689,750,323	-	-		3,689,750,323
Financial assets measured at FVOCI		-	-	38,888,724	38,888,724
Right-to-use asset	20,354,186	27,288,112	27,288,112	28,549,065	103,479,475
Property, plant and equipment	-	-	-	106,839,577	106,839,577
Intangible assets	-	-	7,114,960	-	7,114,960
Deferred tax assets				72,871,635	72,871,635
Other assets	197,882,916	-	-	-	197,882,916
Total assets	8,169,837,911	493,664,143	334,696,389	3,365,140,624	12,119,532,766
Liabilities and equity					
Liabilities					
Deposits from banks	14,261,544	-	-	-	14,261,544
Deposits from customers	3,417,309,420	-	-	-	3,417,309,420
Current tax liability	175,229,165	-	-	-	175,229,165
Retirement benefit obligations	9,280,431	2,928,696	5,577,479	19,648,621	37,435,226
Lease liability	7,803,960	35,803,264	50,761,010	38,347,942	132,716,176
Other liabilities	222,331,120	-	-	-	222,331,120
Total liabilities	3,846,215,640	38,731,960	56,338,489	57,996,563	3,999,282,652
Equity					
Assigned capital		-	-	3,792,318,132	3,792,318,132
Statutory reserve fund	-	-	-	179,424,130	179,424,130
FCBU revaluation reserve	-	-	-	714,180,790	714,180,790
Other reserves	-	-	-	35,858,724	35,858,724
Retained earnings	-	-	-	3,398,468,338	3,398,468,338
Total equity	-	-	-	8,120,250,114	8,120,250,114
Total equity and liabilities	3,846,215,640	38,731,960	56,338,489	8,178,246,677	12,119,532,766
Financial Guarantees	489,092,998	32,889,006	-	-	521,982,004



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Public Bank Berhad – Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2024

36. MATURITY ANALYSIS (Contd...)

36.2 Maturity analysis based on undiscounted cashflows which include estimated interest payments

An analysis of the total assets and total liabilities employed by the Bank as at 31st December 2024 based on the remaining period at the reporting date to the respective contractual maturity dates are given below:

Assets	Less than	1 to 3	3 to 5	More than 5	Total as at	Carrying value
	1 year	Years	Years	Years	31.12.2024	31.12.2024
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Placements with head office and other banks	1,465,140,100	-	-	-	1,465,140,100	1,454,569,903
Financial assets measured at amortised cost						
- Gross loans and receivables	1,770,289,152	1,456,726,968	1,190,605,494	3,496,269,446	7,913,891,059	5,615,266,285
- Debt and other instruments	4,425,078,297	-	-	-	4,425,078,297	4,335,592,447
Total assets	7,660,507,548	1,456,726,968	1,190,605,494	3,496,269,446	13,804,109,456	11,405,428,635
Liabilities and equity						
Liabilities						
Borrowings under repurchase agreements	8,382,378	-	-	-	8,382,378	8,382,378
Deposits from customers - fixed deposits	2,482,321,782	-	-	-	2,482,321,782	2,393,134,368
Lease liability	50,315,550	54,941,708	59,068,883	29,738,915	194,065,057	146,656,123
Total liabilities	2,541,019,711	54,941,708	59,068,883	29,738,915	2,684,769,217	2,548,172,869

An analysis of the total assets and total liabilities employed by the Bank as at 31st December 2023 based on the remaining period at the reporting date to the respective contractual maturity dates are given below:

Assets	Less than	1 to 3	3 to 5	More than 5	Total as at	Carrying value
	1 year	Years	Years	Years	31.12.2023	31.12.2023
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Placements with head office and other banks	1,719,712,937	-	-	-	1,719,712,937	1,713,319,032
Financial assets measured at amortised cost						
- Loans and receivables	364,699,266	467,369,537	111,448,643	7,218,158,683	8,161,676,130	5,771,980,097
- Debt and other instruments	3,732,127,397	-	-	-	3,732,127,397	3,689,750,323
Total assets	5,816,539,600	467,369,537	111,448,643	7,218,158,683	13,613,516,465	11,175,049,451
Liabilities						
Borrowings under repurchase agreements	8,611,362	-	-	-	8,611,362	8,603,138
Deposits from customers - fixed deposits	2,431,072,741	-	-	-	2,431,072,741	2,354,414,553
Lease liability	22,213,940	58,310,899	66,293,461	44,460,697	191,278,997	132,716,176
Total liabilities	2,461,898,042	58,310,899	66,293,461	44,460,697	2,630,963,099	2,495,733,868
Financial Guarantees	489,092,998	32,889,006	-	-	521,982,004	521,982,004



37. FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair values

This note explains the methodology for valuing financial assets and liabilities carried at fair value, and provides an analysis of those balances according to a 'fair value hierarchy', determined by the market observability of valuation inputs.

37.1 Valuation models

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

37.2 Fair value hierarchy

Assets and liabilities recorded at fair value in the Statement of financial position are measured and classified in accordance with a fair value hierarchy consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

- Level 1 :** Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The Bank measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.
- 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 not based on observable data 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.

37.3 Valuation framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Assets and Liability Committee, and it has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models and changes to models involving both Product Control and Bank's Market Risk;
- Quarterly calibration and back-testing of models against observed market transactions;
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by a committee of senior Product Control and Bank Market Risk personnel;



37. FAIR VALUES OF FINANCIAL INSTRUMENTS (Contd...)**37.4 Fair values of financial instruments**

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

There are various limitations inherent in this fair value disclosure particularly where prices may not represent the underlying value due to dislocation in the market. Not all of the Bank's financial instruments can be exchanged in an active trading market. The Bank obtains the fair values for investment securities from quoted market prices where available. Where securities are unlisted and quoted market prices are not available, the Bank obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity risk.

37.5 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.

	2024		
	Level I Rs.	Level II Rs.	Level III Rs.
Financial assets measured at fair value through other comprehensive income	-	-	43,992,496
	-	-	43,992,496

37.5.1 Level III fair value measurements

The following table shows a reconciliation from the beginning balance to the ending balances for fair value measurements in level III of the fair value hierarchy;

	2024 Rs.	2023 Rs.
Financial assets measured at fair value through other comprehensive income		
Balance as at 1 st January	38,888,724	31,145,345
Fair value gain recognized in other comprehensive income during the period	5,103,772	7,743,379
Balance as at 31 st December	43,992,496	38,888,724

37.5.2 Unobservable inputs used in measuring fair value

Type of financial instrument	Fair value as at 31 st December 2024 Rs.	Valuation technique	Significant unobservable input Rs.	Fair value sensitivity to unobservable input
Credit Information Bureau of Sri Lanka	7,203,055	Net assets per share	24,010	Increase of Net assets per share would increase the fair value
Lanka Clear (Private) Limited	36,789,440	Net assets per share	368	Increase of Net assets per share would increase the fair value
Lanka Financial Services Bureau Limited	-	Net assets per share	-	Increase of Net assets per share would increase the fair value



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37. FAIR VALUES OF FINANCIAL INSTRUMENTS (Contd...)

37.6 Financial instruments not measured at fair value

The table below show a comparison of the carrying amounts, as reported on the Statement of Financial Position, and fair values of all financial assets and liabilities carried at amortised cost:

	2024		2023	
	Carrying Value Rs.	Fair Value Rs.	Carrying Value Rs.	Fair Value Rs.
Financial assets :				
Cash and cash equivalents	2,086,993,924	2,086,993,924	2,352,693,562	2,352,693,562
Statutory Deposits with Central Bank of Sri Lanka	23,758,712	23,758,712	21,837,799	21,837,799
Financial assets measured at				
- Loans and advances	5,490,115,372	5,490,115,372	5,528,173,795	5,528,173,795
- Debt and other instruments	4,335,592,447	4,335,592,447	3,689,750,323	3,773,726,132
Other assets	8,861,668	8,861,668	8,803,480	8,803,480
Total financial assets	11,945,322,123	11,945,322,123	11,601,258,959	11,685,234,768
Financial liabilities :				
Deposits from Banks	11,269,553	11,269,553	14,261,544	14,261,544
Deposits from customers	3,648,758,391	3,648,758,391	3,417,309,420	3,417,309,420
Lease liability	146,656,123	146,656,123	132,716,176	132,716,176
Other liabilities	213,617,155	213,617,155	183,091,908	183,091,908
Total financial liabilities	4,020,301,221	4,020,301,221	3,747,379,049	3,747,379,049

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:

31 st December 2024	Level I Rs.	Level II Rs.	Level III Rs.	Total Carrying Value Rs.	Total Fair Value Rs.
Financial assets :					
Cash and cash equivalents	248,499,207	1,838,494,717	-	2,086,993,924	2,086,993,924
Statutory Deposits with Central Bank of Sri Lanka	-	23,758,712	-	23,758,712	23,758,712
Financial assets measured at amortised cost					
- Loans and advances	-	-	5,490,115,372	5,490,115,372	5,490,115,372
- Debt and other instruments	-	-	4,335,592,447	4,335,592,447	4,335,592,447
Other assets	-	-	8,861,668	8,861,668	8,861,668
	248,499,207	1,862,253,429	9,834,569,487	11,945,322,123	11,945,322,123
Financial Liabilities :					
Deposits from Banks	-	-	11,269,553	11,269,553	11,269,553
Deposits from customers	-	-	3,648,758,391	3,648,758,391	3,648,758,391
Lease liability	-	-	146,656,123	146,656,123	146,656,123
Other liabilities	-	-	213,617,155	213,617,155	213,617,155
	-	-	4,020,301,221	4,020,301,221	4,020,301,221



37. FAIR VALUES OF FINANCIAL INSTRUMENTS (Contd...)

37.6 Financial instruments not measured at fair value (Contd...)

Cash and cash equivalents

The carrying amounts of cash and cash equivalents, approximate their fair value as those are short-term in nature and are receivable on demand.

Loans and receivables

The fair values of fixed rate loans and receivables with remaining maturity of less than one year and variable rate loans and advances are estimated to approximate their carrying amounts. The fair values of impaired loans/financing are represented by their carrying amounts, net of any individual assessment allowance, being the expected recoverable amount."

Debt and other instruments

The fair values of financial investments measured at amorised cost are estimated based on broker/dealer price quotations. All financial investments held at reporting date are measured at amortised cost.

Other assets

Carrying value of other receivables items has been considered as the fair value due to the timing of the cash flows.

Financial liabilities

Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of pre mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

38. FINANCIAL RISK MANAGEMENT

38.1 Overview

The Bank's business activities involve the use of financial instruments . These activities expose the Bank to a variety of financial risks, mainly credit risk, liquidity risk, market risk, operational risk.

The Bank's financial risks are subject to Management's oversight, through the Risk Management Committee ("RMC"), a Board Committee, which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk oversight committees which are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC") and the Operational Risk Management Committee ("ORMC").

38.2 Credit risk

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. As the Bank's primary business is in commercial banking, the Bank's exposure to credit risk is primarily from its lending and financing to retail consumers, Small - and Medium-sized Enterprises ("SMEs") and corporate customers. Trading and investing the surplus funds of the Bank, such as trading or holding of debt securities, settlement of transactions, also expose the Bank to credit risk and counterparty credit risk.

Risk governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Bank's credit risk framework and policies, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

The Bank's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Bank's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit approving authorities are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division, the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the risk policies are implemented and complied with.

Risk management approach

The management of credit risk starts with experienced key personnel being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All loan applications of significant amounts are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve loans with lower risk exposure. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

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38. FINANCIAL RISK MANAGEMENT (Contd...)

38.2 Credit risk (Contd...)

Risk management approach (Continued)

(e) Credit risk from trading and investment activities (Continued)

(i) Credit risk exposures and credit risk concentration (Continued)

Exposure to credit risk (Continued)

The table below set out information about credit quality of financial assets and allowance for impairment/expected credit losses held by the Bank against those assets.

	2024			Total Rs.
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	
Financial assets measured at amortised cost:				
Loans and advances				
Grade 0 - 2 Performing loans	4,736,851,584	773,712,178	-	5,510,563,762
Grade 3 - NPA special mention	-	-	14,690,443	14,690,443
Grade 4 - NPA substandard	-	-	-	-
Grade 5 - NPA doubtful	-	-	2,663,413	2,663,413
Grade 6 - NPA loss	-	-	87,348,667	87,348,667
Total gross loans and advances	4,736,851,584	773,712,178	104,702,523	5,615,266,284
Expected credit loss allowance	(34,399,395)	(52,212,678)	(38,538,840)	(125,150,913)
Total net loans and advances	4,702,452,189	721,499,500	66,163,681	5,490,115,371
Financial assets measured at amortised cost:				
Debt and other instruments				
Government securities : Treasury bills (CC)	3,935,514,150	-	-	3,935,514,150
Securities purchased under re-sale agreements (CC)	400,078,297	-	-	400,078,297
Sri Lanka development bonds (CC)	-	-	-	-
Total debt and other instruments	4,335,592,447	-	-	4,335,592,447
Expected credit loss allowance	-	-	-	-
Total net debt and other instruments	4,335,592,447	-	-	4,335,592,447
Cash and cash equivalents (Balances with banks)				
Cash and balances with banks	248,499,207	-	-	248,499,207
Deposits with banks	387,050,572	-	-	387,050,572
Placements with banks	1,454,569,903	-	-	1,454,569,903
Total balances with banks	2,090,119,682	-	-	2,090,119,682
Expected credit loss allowance	(3,125,758)	-	-	(3,125,758)
Total net balances with banks	2,086,993,924	-	-	2,086,993,924



38. FINANCIAL RISK MANAGEMENT (Contd...)

38.2 Credit risk (Continued)

Risk management approach (Contd...)

Independent credit reviews are performed regularly to complement risk identification as well as to evaluate the quality of credit appraisals and the competency of credit personnel. Internal risk management reports are presented to both the CRMC and the RMC, containing information on economic trends across major portfolios, quality of credit portfolios, results of independent credit review, results of the credit profiling conducted, significant credit exposures to connected parties and credit concentration by economic sectors and by large single customers. Such information allows senior management, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.

(a) Lending to retail consumers and SMEs

The credit granting to retail consumers and SMEs is individually underwritten, which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the customer through the use of an internal credit risk rating score sheet. The credit approving authorities have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer are included in the loan application.

(b) Lending to Corporate and Institutional Customers

The credit granting to corporate and institutional customers is individually underwritten and risk-rated. Credit officers identify and assess the credit risks of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support such as standby letters of credit or bank guarantees.

(c) Credit risk from trading and investment activities

The management of the credit risk arising from the Bank's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, the Bank's investment policy also stipulates the minimum investment grade for debt securities, types of permissible transactions and the maximum tenure. The investment policy is also subject to regular review. The holdings of Collateralised Debt Obligations ("CDO") or Collateralised Loan Obligations ("CLO") require the specific approval of the Head Office. As at reporting date, the Bank does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

There have been no changes to the process for managing credit risk and the methods used to measure credit risk.

(i) Credit risk exposures and credit risk concentration

Exposure to credit risk

For on-balance sheet financial assets, the maximum exposure to credit risk equals their carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations for which the instruments are issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.



38. FINANCIAL RISK MANAGEMENT (Contd...)

38.2 Credit risk (Contd...)

Risk management approach (Continued)

(c) Credit risk from trading and investment activities (Continued)

(i) Credit risk exposures and credit risk concentration (Continued)

Exposure to credit risk (Continued)

The table below set out information about credit quality of financial assets and allowance for impairment/expected credit losses held by the Bank against those assets.

	2023			Total Rs.
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	
Financial assets measured at amortised cost:				
Loans and advances				
Grade 0 - 2 Performing loans	4,348,430,409	978,881,442	57,277,143	5,384,588,993
Grade 3 - NPA special mention	-	-	295,951,567	295,951,567
Grade 4 - NPA substandard	-	-	55,508,070	55,508,070
Grade 5 - NPA doubtful	-	-	13,785,096	13,785,096
Grade 6 - NPA loss	-	-	22,146,370	22,146,370
Total gross loans and advances	4,348,430,409	978,881,442	444,668,246	5,771,980,096
Expected credit loss allowance	(149,189,052)	(57,545,942)	(37,071,307)	(243,806,301)
Total net loans and advances	4,199,241,357	921,335,499	407,596,938	5,528,173,795
Financial assets measured at amortised cost:				
Debt and other instruments				
Government securities : Treasury bills (CC)	3,629,708,043	-	-	3,629,708,043
Securities purchased under re-sale agreements (CC)	60,042,280	-	-	60,042,280
Sri Lanka development bonds (CC)	-	-	-	-
Total debt and other instruments	3,689,750,323	-	-	3,689,750,323
Expected credit loss allowance	-	-	-	-
Total net debt and other instruments	3,689,750,323	-	-	3,689,750,323
Cash and cash equivalents (Balances with banks)				
Cash and balances with banks	263,316,474	-	-	263,316,474
Deposits with banks	378,688,898	-	-	378,688,898
Placements with banks	1,713,319,032	-	-	1,713,319,032
Total balances with banks	2,355,324,404	-	-	2,355,324,404
Expected credit loss allowance	(2,630,842)	-	-	(2,630,842)
Total net balances with banks	2,352,693,562	-	-	2,352,693,562



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Year ended 31 December 2024

38. FINANCIAL RISK MANAGEMENT (Contd...)

38.2 Credit risk (Contd...)

Risk management approach (Contd...)

(c) Credit risk from trading and investment activities (Contd...)

(i) Credit risk exposures and credit risk concentration (Contd...)

Exposure to credit risk (Contd...)

Following table provides an explanation of how significant changes in each parameter considered for compute expected credit loss contributes to change expected credit loss allowance.

	2024		
	Stage 1 Rs	Stage 2 Rs	Stage 3 Rs
Financial assets at amortized cost: Loans and advances - Expected credit loss			
Increase/ (decrease) in expected credit loss	(114,674,889)	(5,328,160)	1,484,680
Increase/ (decrease) of ECL as a result of EAD movement	(104,266,290)	(4,294,272)	1,674,335
Decrease of ECL as a result of PD rate change	-	-	-
(Decrease) of ECL as a result of LGD rate change	(2,049,434)	(662,652)	(189,655)
Increase/ (decrease) of ECL as a result of EFA rate change	(8,359,165)	(371,236)	-
	2023		
	Impact: Increase/ (Decrease)		
	Stage 1 Rs	Stage 2 Rs	Stage 3 Rs
Financial assets at amortized cost: Loans and advances - Expected credit loss			
Increase/ (decrease) in expected credit loss	(35,655,036)	37,491,868	33,880,998
Increase/ (decrease) of ECL as a result of EAD movement	(24,178,295)	47,947,749	(41,680,300)
Decrease of ECL as a result of PD rate change	-	-	-
(Decrease) of ECL as a result of LGD rate change	(2,697,213)	(2,399,849)	(738,932)
Increase/ (decrease) of ECL as a result of EFA rate change	59,590,111	(125,439)	-
Financial assets at amortized cost: - Debt and other instruments - Expected credit loss			
Increase/ (decrease) in expected credit loss allowance for foreign currency denominated instruments due to country downgrading	-	-	-
Cash and cash equivalents - Expected credit loss			
Decrease in cash and cash equivalents expected credit loss	(7,346,832)	-	-
Undrawn Commitments and contingencies			
Decrease in undrawn commitments and contingencies expected credit loss	10,165,262	-	-

Measurement of Expected Credit Losses (ECL)

Inputs, assumptions and techniques used for estimating impairment under SLFRS 9 is disclosed under Accounting Policies Note 3.3.7.

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.

The Bank uses a backstop of 30 days past due for determining whether there is a significant increase in credit risk.

Incorporation of forward-looking information

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

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 and credit risk and credit losses.

The key drivers for credit risk are gross domestic product growth, inflation, exchange rates and government debt. The Bank formulates multiple economic scenarios to reflect base case, best case and worst case.

Post - model adjustments

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 Bank's lending portfolios due to emerging economic uncertainties and risks. The use of management overlay may impact the amount of ECL recognized. Accordingly, post model adjustments have been applied to ensure credit provisions are appropriate. Taking into the consideration the current economic condition of the country weightage assign collective model were adjusted which resulted in overall increased in ECL.

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Year ended 31 December 2024

38. FINANCIAL RISK MANAGEMENT (Contd...)

38.2 Credit risk (Contd...)

Risk management approach (Contd...)

(c) Credit risk from trading and investment activities (Contd...)

(i) Credit risk exposures and credit risk concentration (Contd...)

Exposure to credit risk (Contd...)

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

- Probability of Default (PD)
- Loss Given Default (LGD) ; and
- Exposure At Default (EAD)

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

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.

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.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

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

Collateral held and other credit enhancement

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated regularly. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

An estimate made at the time of borrowing of the fair value of collateral and other security enhancements held against loans and advances to customers is given below and the value of collateral has been restricted to the value of the loans outstanding balances.

Collateral type	2024 Rs.	2023 Rs.
Immovable property, plant and machinery	4,256,035,465	4,664,765,479
Movable property-Motor Vehicle	255,900,994	96,329,863
Fixed, savings, other deposits	293,098,362	175,248,780
Government Securities	-	-
	4,805,034,821	4,936,344,121
On clean basis	810,231,465	835,635,974
Total	5,615,266,286	5,771,980,095



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38. FINANCIAL RISK MANAGEMENT (Contd...)

38.2 Credit risk (Contd...)

Risk management approach (Contd...)

(c) Credit risk from trading and investment activities (Contd...)

(i) Credit risk exposures and credit risk concentration (Contd...)

Exposure to credit risk (Contd...)

The table below sets out principal types of collateral and their approximate collateral percentages that are held against different types of financial assets

Type of credit exposure	Principal type of collateral held for secured leasing	Percentage of exposure that is subject to an arrangement that requires collateralisation	
		2024	2023
Loans and Advances	Commercial Property	100	100
	Residential Property	100	100
	Vehicle	100	100
	Cash / FD	100	100

The following tables stratify credit exposures from term and trade loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – 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 for mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans, the value of collateral is based on the most recent appraisals.

	Term Loans		Trade Loans	
	2024	2023	2024	2023
LTV Ratio				
Less than 50%	2,092,857,699	2,449,609,082	1,578,751,656	623,148,295
51 - 70 %	595,981,613	-	79,025,396	6,032,451
71 - 90 %	156,486,119	14,097,533	-	1,821,303
91 - 100 %	59,561,305	-	201,533,265	8,340,821
More than 100 %	747,414,007	1,591,521,229	-	633,395,761
Total	3,652,300,743	4,055,227,844	1,859,310,317	1,272,738,630
Credit-impaired loans				
Less than 50 %	104,647,102	54,458,435	55,421	21,811,623
51 - 70 %	-	-	-	-
More than 100 %	-	368,390,274	-	7,914
	104,647,102	422,848,709	55,421	21,819,537

Movement of financial and non-financial assets obtained by the Bank as at 31st December 2023 by taking possession of collateral held as security (foreclosed) against loans and advances and held as at the year end are shown below:

Foreclosed properties	2024		2023	
	Loans and advances	Forced sale value of foreclosed collateral	Loans and advances	Forced sale value of foreclosed collateral
	Rs.	Rs.	Rs.	Rs.
Balances as at 1 st January	-	-	31,369,144	22,500,000
(Waiver)/Additions during the year	17,875,601	25,238,700	(4,939,544)	(3,500,000)
Disposals during the year	-	-	(19,000,000)	(19,000,000)
Write-offs during the year	(3,849,790)	-	(7,429,600)	-
Exchange loss during the year	(1,244,328)	-	-	-
Balance as at 31 st December	12,781,483	25,238,700	-	-

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



38. FINANCIAL RISK MANAGEMENT (Contd...)

38.2 Credit risk (Contd...)

Risk management approach (Contd...)

(c) Credit risk from trading and investment activities (Contd...)

(i) Credit risk exposures and credit risk concentration (Contd...)

Concentrations of credit risk

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

By Industry Analysis

The analysis of credit risk concentration is presented in Note 16.1.2 presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparties are engaged (for non-individual counterparties) or the economic purpose of the credit exposure (for individuals). The exposures to credit risk are presented without taking into account any collateral held or other credit enhancements.

By Geographical Analysis

The analysis of credit concentration risk of financial assets of the Bank categorised by the geographical distribution is not included as the Bank's concentration of credit risk resides only in Sri Lanka.

Credit rating of corresponding banks which the cash and cash equivalent are held are ranging from AA+ to CCC.

38.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

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

	Note	Carrying amount Rs.	Market risk measure	
			Trading portfolio Rs.	Non-trading portfolio Rs.
31st December 2024				
Assets subject to market risk				
CASH AND CASH EQUIVALENTS	14.	2,086,993,924	-	2,086,993,924
Financial assets measured at amortised cost				
- Loans and advances	16.	5,490,508,046	-	5,490,508,046
- Debt and other instruments	17.	4,335,592,447	-	4,335,592,447
Financial assets measured at fair value through other comprehensive income	18.	43,992,496	-	43,992,496
		<u>11,957,086,913</u>	<u>-</u>	<u>11,957,086,913</u>
Liabilities subject to market risk				
Deposits from banks	24.	11,269,553	-	11,269,553
Deposits from customers	25.	3,648,758,391	-	3,648,758,391
		<u>3,660,027,944</u>	<u>-</u>	<u>3,660,027,944</u>
31st December 2023				
Assets subject to market risk				
CASH AND CASH EQUIVALENTS	14.	2,352,693,562	-	2,352,693,562
Financial assets measured at amortised cost				
- Loans and advances	16.	5,528,173,794	-	5,528,173,794
- Debt and other instruments	17.	3,689,750,323	-	3,689,750,323
Financial assets measured at fair value through other comprehensive income	18.	38,888,724	-	38,888,724
		<u>11,609,506,403</u>	<u>-</u>	<u>11,609,506,403</u>
Liabilities subject to market risk				
Deposits from banks	24.	14,261,544	-	14,261,544
Deposits from customers	25.	3,417,309,420	-	3,417,309,420
		<u>3,431,570,964</u>	<u>-</u>	<u>3,431,570,964</u>



38. FINANCIAL RISK MANAGEMENT (Contd...)

38.3 Market risk (Contd...)

Risk governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Bank's market risk framework and policies, aligns market risk management with business strategies and planning, and recommends actions to ensure that the market risk remains within established risk tolerance level. The market risk of the Bank is identified into traded market risk and non-traded market risk.

Exposure to interest rate risk

Interest rate risk is the risk that the Bank will experience in deterioration in its financial positions as interest rates move over time.

Types of market risk

(i) Traded market risk

Traded market risk, primarily the interest rate/rate of return risk and credit spread risk, exist in the Bank's trading book positions held for the purpose of benefiting from short-term price movements, which are conducted primarily by the treasury operations.

Risk management approach

The Bank's traded market risk framework comprises market risk policies and practices, delegation of authority, market risk limits and valuation methodologies. In addition, the Treasury Back Office is also responsible to monitor and report on limit excesses and the daily mark-to-market valuation of fixed income securities. The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by Risk Management Division. Changes to market risk limits must be approved by the Board of Directors. The trading book positions and limits are regularly reported to the ALCO. The Bank maintains its policy of prohibiting exposures in trading financial derivative positions.

(ii) Non-traded market risk

The Bank's core non-traded market risks are interest rate/rate of return risk in the banking book, foreign exchange risk and equity price risk.

(a) Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB")

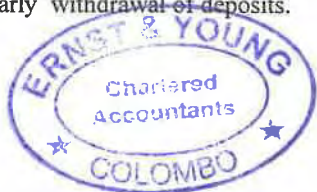
IRR/RoRBB is the risk to the Bank's earnings and economic value of equity ("EVE") arising from adverse movements in interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

Risk management approach

The primary objective in managing the IRR/RoRBB is to manage the volatility in the Bank's net interest/ net profit income ("NII/NPI") and EVE, whilst balancing the cost of such activities on the current revenue streams. This is achieved in a variety of ways such as the offsetting of positions against each other for any matching assets and liabilities and the acquisition of new financial assets and liabilities to narrow the mismatch in interest rate/rate of return sensitive assets and liabilities.

The Bank uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

The following tables indicate the effective interest rate/rate of return at the reporting date the Bank's sensitivity to interest rate/rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans, advances and financing or early withdrawal of deposits.



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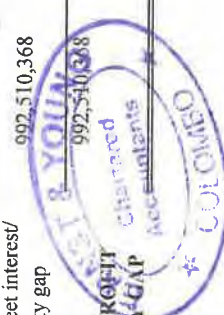
38. FINANCIAL RISK MANAGEMENT (Contd...)

38.3 Market risk (Contd...)

Types of market risk (Contd...)

(a) Interest Rate/Rate of Return Risk in the Banking Book (“IRR/RoRBB”) (Continued)

As at 31 st December 2024	Less than 7 Days	7-30 Days	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-interest Sensitive	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
ASSETS										
Cash and cash equivalents	635,549,779	1,454,569,903	-	-	-	-	-	-	-	2,086,993,924
Statutory deposit with Central Bank of Sri Lanka	23,758,712	-	-	-	-	-	-	-	-	23,758,712
<i>Financial assets measured at amortised cost</i>										
- Loans and advances	1,186,611,837	469,627,764	255,002,194	147,700,989	275,309,055	994,187,066	984,218,294	1,177,458,172	-	5,490,115,372
- Debts and other instruments	399,819,984	513,017,425	1,760,897,700	1,661,857,338	-	-	-	-	-	4,335,592,447
Financial investments measured at FVOCI	-	-	-	-	-	-	-	-	43,992,496	43,992,496
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	443,141,050	443,141,050
Total Assets	2,245,740,312	2,437,215,092	2,015,899,894	1,809,558,327	275,309,055	994,187,066	984,218,294	1,177,458,172	484,007,789	12,423,594,001
LIABILITIES AND EQUITY										
Deposits from banks	11,269,553	-	-	-	-	-	-	-	-	11,269,553
Deposits from customers	1,241,960,391	186,616,000	1,283,229,000	446,302,000	490,651,000	-	-	-	-	3,648,758,391
Lease liability	-	-	-	-	-	-	-	-	146,656,123	146,656,123
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	380,168,474	380,168,474
Total liabilities	1,253,229,944	186,616,000	1,283,229,000	446,302,000	490,651,000	-	-	-	526,824,597	4,186,852,541
Equity attributable to equity holders of the bank	-	-	-	-	-	-	-	-	8,236,741,460	8,236,741,460
Total equity	-	-	-	-	-	-	-	-	8,236,741,460	8,236,741,460
On-balance sheet interest/profit sensitivity gap	992,510,368	2,250,599,092	732,670,894	1,363,256,327	(215,341,945)	994,187,066	984,218,294	1,177,458,172	(8,279,558,269)	-
TOTAL INTEREST/PROFIT SENSITIVITY GAP	992,510,368	2,250,599,092	732,670,894	1,363,256,327	(215,341,945)	994,187,066	984,218,294	1,177,458,172	(8,279,558,269)	-



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38. FINANCIAL RISK MANAGEMENT (Contd...)

38.3 Market risk (Contd...)

Types of market risk (Contd...)

(a) Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB") (Contd...)

As at 31 st December 2023	Less than 7 Days		7-30 Days		1-3 Months		3-6 Months		6-12 Months		1-3 Years		3-5 Years		Over 5 Years		Non-interest Sensitive		Total		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
ASSETS																					
Cash and cash equivalents	642,005,372	1,713,319,032	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,630,842)	-	2,352,693,562	
Statutory deposit with Central Bank of Sri Lanka	21,837,799	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,837,799	
<i>Financial assets measured at amortised cost</i>																					
- Loans and advances	940,257,610	2,879,918	592,210,140	71,414,580	100,839,863	423,927,463	104,147,488	3,292,496,734	-	-	-	-	-	-	-	-	-	-	-	5,528,173,795	
- Debts and other instruments	57,686,237	2,167,435,392	784,590,734	162,054,559	517,983,401	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,689,750,323	
Financial investments measured at FVOCI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,888,724	-	38,888,724	
Other non-interest/profit Sensitive balances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	488,188,563	-	488,188,563	
Total Assets	1,661,787,018	3,883,634,342	1,376,800,874	233,469,139	618,823,264	423,927,463	104,147,488	3,292,496,734	524,446,445	12,119,532,766											

LIABILITIES AND EQUITY

Deposits from banks	14,261,544	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,261,544	
Deposits from customers	1,016,838,000	411,353,000	964,116,000	515,397,420	509,605,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,417,309,420	
Lease liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	132,716,176	
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	434,995,512	
Total liabilities	1,031,099,544	411,353,000	964,116,000	515,397,420	509,605,000	-	-	-	567,711,688	3,999,282,652											
Equity attributable to equity holders of the bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,120,250,114	
Total equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,120,250,114	

On-balance sheet interest/profit sensitivity gap	600,687,474	3,472,281,342	412,684,874	(281,928,281)	109,218,264	423,927,463	104,147,488	3,292,496,734	(8,163,515,356)	-
TOTAL INTEREST/PROFIT SENSITIVITY GAP	600,687,474	3,472,281,342	412,684,874	(281,928,281)	109,218,264	423,927,463	104,147,488	3,292,496,734	(8,163,515,356)	-



38. FINANCIAL RISK MANAGEMENT (Contd...)

38.3 Market risk (Contd...)

Types of market risk (Contd...)

(a) Interest Rate/Rate of Return Risk in the Banking Book (“IRR/RoRBB”) (Contd...)

(i) Interest Rate/ Rate of Return Risk Sensitivity Analysis

The following tables present the projected Bank’s sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Bank’s interest rate/rate of return sensitivity gap as at the reporting date. Where the current interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return.

	2024		2023	
	Profit Rs. 000's	Equity Rs. 000's	Profit Rs. 000's	Equity Rs. 000's
1% Increase in Interest Rate				
Assets denominated in LKR	45,692	45,692	46,074	46,074
Assets denominated in USD	3,512	3,512	16,992	16,992
Liabilities denominated in LKR	(6,563)	(6,563)	(14,977)	(14,977)
Liabilities denominated in USD	(1,246)	(1,246)	(6,920)	(6,920)
Liabilities denominated in GBP	(120)	(120)	(298)	(298)
	<u>41,275</u>	<u>41,275</u>	<u>40,871</u>	<u>40,871</u>
1% Decrease in Interest Rate				
Assets denominated in LKR	(45,692)	(45,692)	(46,074)	(46,074)
Assets denominated in USD	(3,512)	(3,512)	(16,992)	(16,992)
Liabilities denominated in LKR	6,563	6,563	14,977	14,977
Liabilities denominated in USD	1,246	1,246	6,920	6,920
Liabilities denominated in GBP	120	120	298	298
	<u>(41,275)</u>	<u>(41,275)</u>	<u>(40,871)</u>	<u>(40,871)</u>

The reported amounts do not take into account actions that would be taken by treasury operations or business units to mitigate the impact of this interest rate/rate of return risk. In reality, treasury operations seek to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes that interest rate/rate of return of all maturities move by the same amount and therefore, does not reflect the potential impact on the NII/NPI and EVE of some rates changing while others remain unchanged. The projection also assumes constant statements of financial position and that all positions run to maturity.

The repricing profile of loans/financing that does not have maturity is based on the earliest possible repricing dates. Actual dates may differ from contractual dates owing to prepayments. Loans/financing prepayment is generally estimated based on past statistics and trends, where possible and material. The impact on the NII/NPI is measured on a monthly basis and the impact on the EVE is on a quarterly basis, both of which are reported to the ALCO and the RMC.

(ii) Stress Testing

Stress testing is conducted semi-annually to determine the adequacy of capital in meeting the impact of extreme interest rate/rate of return movements on the Bank’s statements of financial position. Stress testing is performed to provide early warnings of potential losses to facilitate the proactive management of interest rate/rate of return risk.

(b) Foreign exchange risk

Foreign exchange risk refers to the adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Bank’s investments and retained earnings whose functional currencies is not Sri Lankan Rupees. The main foreign currency in which the Bank’s businesses are transacted in are United States Dollars.

Public Bank Berhad – Sri Lanka Branch
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38. **FINANCIAL RISK MANAGEMENT (Contd...)**

38.3 **Market risk (Contd...)**

Types of market risk (Contd...)

(b) Foreign exchange risk (Contd...)

Risk management approach

(i) The Bank manages such risk through funding in the same functional currencies, where possible. In addition, Net Open Position (“NOP”) limit is set for overall NOP as well as NOP limits for individual currencies by the ALCO.

The following note summaries the assets, liabilities and net open position by currency as at 31st December 2024.

	2024																
	United States Dollars		Australian Dollars		Japanese Yen		Singapore Dollars		Euro		Sterling Pounds		Malaysian Ringgit		Total		
	Rs.	Dollars	Rs.	Dollars	Rs.	Yen	Rs.	Dollars	Rs.	Euro	Rs.	Pounds	Rs.	Ringgit	Rs.	Total	
Assets																	
Cash and cash equivalents	1,848,807,558		761,587		95,949		1,255,228		2,748,694		28,279,554		43			1,881,948,613	
<i>Financial assets measured at amortised cost</i>																	
- Loans and advances	155,989,682															155,989,682	
- Debts and other instruments																	
Total assets	2,004,797,239		761,587		95,949		1,255,228		2,748,694		28,279,554		43			2,037,938,295	
Liabilities and Equity																	
Liabilities																	
Deposits from banks																	
Deposits from customers	726,288,361		727,666		92,369		529,426		607,580		26,411,200					754,656,602	
Total liabilities	726,288,361		727,666		92,369		529,426		607,580		26,411,200					754,656,602	
Total equity	1,102,029,062															1,102,029,062	
Total equity and liabilities	1,828,317,423		727,666		92,369		529,426		607,580		26,411,200					1,856,685,664	
On-balance sheet open position	176,479,816		33,921		3,581		725,802		2,141,114		1,868,354		43			181,252,632	
Off-balance sheet open position																	
NET OPEN POSITION	176,479,816		33,921		3,581		725,802		2,141,114		1,868,354		43			181,252,632	



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

38. FINANCIAL RISK MANAGEMENT (Contd...)

38.3 Market risk (Contd...)

Types of market risk (Contd...)

(b) Foreign exchange risk (Contd...)

Risk management approach

(i) The Bank manages such risk through funding in the same functional currencies, where possible. In addition, Net Open Position (“NOP”) limit is set for overall NOP as well as NOP limits for individual currencies by the ALCO.

The following note summaries the assets, liabilities and net open position by currency as at 31st December 2023.

	2023																
	United States Dollars		Australian Dollars		Japanese Yen		Singapore Dollars		Euro		Sterling Pounds		Malaysian Ringgit		Total		
	Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		
Assets																	
Cash and cash equivalents	2,048,758,221		5,568,373		2,268,052		5,159,764		4,948,489		37,856,826		46		2,104,559,771		
<i>Financial assets measured at amortised cost</i>																	
- Loans and advances	227,808,405		-		-		-		-		-		-		227,808,405		
- Debts and other instruments	-		-		-		-		-		-		-		-		
Total assets	2,276,566,626		5,568,373		2,268,052		5,159,764		4,948,489		37,856,826		46		2,332,368,176		
Liabilities and Equity																	
Liabilities																	
Deposits from banks	-		-		-		-		-		-		-		-		
Deposits from customers	887,039,886		1,148,359		112,499		1,584,421		981,686		31,898,831		-		922,765,682		
Total liabilities	887,039,886		1,148,359		112,499		1,584,421		981,686		31,898,831		-		922,765,682		
Total equity	1,160,045,849		-		-		-		-		-		-		1,160,045,849		
Total equity and liabilities	2,047,085,735		1,148,359		112,499		1,584,421		981,686		31,898,831		-		2,082,811,531		
On-balance sheet open position	229,480,891		4,420,014		2,155,553		3,575,343		3,966,803		5,957,995		46		249,556,645		
Off-balance sheet open position	-		-		-		-		-		-		-		-		
NET OPEN POSITION	229,480,891		4,420,014		2,155,553		3,575,343		3,966,803		5,957,995		46		249,556,645		



Public Bank Berhad – Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS
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38. FINANCIAL RISK MANAGEMENT (Contd...)

38.3 Market risk (Contd...)

Types of market risk (Contd...)

(b) Foreign exchange risk (Contd...)

(ii) Given below is the Bank's exposure in foreign currency:

	2024 Rs.	2023 Rs.
United States Dollars	176,479,816	229,480,891
Australian Dollars	33,921	4,420,014
Japanese Yen	3,581	2,155,553
Singapore Dollar	725,802	3,575,343
Euro	2,141,114	3,966,803
Sterling Pounds	1,868,354	5,957,995
Malaysian Ringgit	43	46
	<u>181,252,632</u>	<u>249,556,645</u>

(c) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

Based on the Bank's policies, risk management unit ensures that reporting in respect of the equity investments and its valuation methodologies are appropriate and consistent, and assesses the potential impact on profits and capital.

(d) Sensitivity Analysis

A reasonable possible strengthening (weakening) of the US dollar, against all currencies as at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Effect in Rs.	Profit or loss		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
31-December-2024				
USD - 5% movement	1,842,257	(1,842,257)	1,289,580	(1,289,580)
31-December-2023				
USD - 5% movement	2,380,000	(2,380,000)	1,618,400	(1,618,400)

38.4 Liquidity and funding risk

Liquidity risk is the risk that the Bank is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the Bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk governance

The ALCO is the primary party responsible for liquidity management based on guidelines approved by the RMC. Liquidity policies and frameworks are reviewed by the ALCO and approved by the RMC prior to implementation.

Risk management approach

The liquidity risk management of the Bank is aligned with the New Liquidity Framework followed by and is measured and managed based on projected cash flows. In addition to ensuring compliance with the New Liquidity Framework, the Bank maintains a liquidity compliance buffer to meet any unexpected cash outflows.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flow and the replenishment of funds as they matured or are borrowed by customers. As at 31st December 2024, the Bank holds a sizeable balance of government securities amounting to Rs.4,335,592,447 (2023 : Rs. 3,689,750,323) of its portfolio of securities.

The Bank's liquidity and funding position is supported by the Bank's significant retail deposit base, accompanied by funding from the money markets. The Bank's retail deposit base comprises current and savings deposits which, although payable on demand, have traditionally in aggregate provided stable sources of funding. The Bank's reputation, earnings generation capacity, strong credit rating, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors' confidence and ensure liquidity.



38. Financial Risk Management (Continued)**38.4 Liquidity and funding risk (Continued)****Risk management approach (Continued)**

The primary tools for monitoring liquidity are the maturity mismatch analysis, assessment on the concentration of funding, the availability of unencumbered assets and the use of market-wide information to identify possible liquidity problems. Liquidity positions are reported to the ALCO on a monthly basis in Sri Lankan Rupees and United States Dollars.

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed to determine the cash flow mismatches under the “Specific Institution Liquidity Problem” and “Systemic Liquidity Problem” scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk are the liquidity coverage ratio and net stable funding ratio. For this purpose high quality liquid assets are considered including cash and cash equivalents and investment for which there is an active and liquid market. A similar calculation is used to measure the Bank’s compliance with the liquidity limit established by the, Central Bank of Sri Lanka. Details of the liquidity coverage ratio and Net Stable Funding ratio at the reporting date and during the year were as follows:

Liquidity Coverage Ratio

	2024		2023	
	LKR %	All Currency %	LKR %	All Currency %
As at 31 st December	1455%	4324%	1812.00%	3909.81%
Average for the year	3977%	3857%	1824.67%	2303.15%
Maximum for the year	6807%	4593%	3372.00%	4096.08%
Minimum for the year	1455%	1219%	1221.00%	786.64%

Net Stable Funding Ratio

	2024	2023
As at 31 st December	186.00%	172.00%
Average for the year	201.25%	176.00%
Maximum for the year	212.00%	182.00%
Minimum for the year	186.00%	172.00%

Note 36 shows the maturity analysis of the carrying amounts of the Bank’s assets and liabilities based on remaining contractual maturity. The contractual maturity profile often does not reflect the actual behavioral patterns.

38.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is managed through an operational risk management framework with established operational risk management processes put in place. To manage and mitigate operational risk, the Bank places great emphasis on the importance of proper monitoring and reporting of business units’ adherence to established risk policies, procedures and limits by independent control and support units, oversight provided by the management and independent assessment of the adequacy and reliability of the risk management processes by the Internal Audit Division at Head Office.

The operational risk management processes include establishment of system of internal controls, identification and assessment of operational risk inherent in new and existing products, processes and systems, regular disaster recovery and business continuity planning and simulations, self-compliance audit, and operational risk incident reporting and data collection.



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39. CAPITAL MANAGEMENT

The Bank is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions stemming from Basel III Accord. These guidelines require the Bank to maintain a Capital Adequacy Ratio (CAR) of not less than 7% with Common Equity Tier I capital (CET I) in relation to total riskweighted assets and a minimum overall CAR of 12.50% inclusive of Tier I and Tier II in relation to total risk-weighted assets.

	2024 Rs.	2023 Rs.
Common Equity Tier I (CETI) Capital after Adjustments	6,092,828	5,649,389
Total Common Equity Tier I (CETI) Capital	7,596,105	7,406,069
Equity capital or stated capital/assigned capital	3,792,318	3,792,318
Reserve fund	191,803	179,424
Published retained earnings/(Accumulated retained losses)	3,611,984	3,398,468
Accumulated other comprehensive income (OCI)	-	-
General and other disclosed reserves	-	35,859
Unpublished current year's profit/(losses) and gains reflected in OCI	-	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the bank and	-	-
Total Adjustments to CETI Capital	1,503,277	1,756,680
Goodwill (net)	-	-
Intangible Assets (net)	148,740	110,594
Deferred tax assets (net)	43,633	72,872
Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees	(177,121)	(173,455)
Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	1,488,025	1,746,669
Additional Tier 1 (ATI) Capital after Adjustments	-	-
Total Additional Tier 1 (ATI) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the bank and held	-	-
Total Adjustments to AT1 Capital	-	-
Investment in own shares	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	76,412	80,451
Total Tier 2 Capital	76,412	80,451
Qualifying Tier 2 Capital Instruments	-	-
Revaluation gains	-	-
General Provisions	76,412	80,451
Instruments issued by consolidated banking and financial subsidiaries of the bank and held	-	-
Total Adjustments to Tier 2 Capital	-	-
Investment in own shares	-	-
Others (specify)	-	-
Total Tier 1 Capital	6,092,828	5,649,389
Total Capital	6,169,240	5,729,840
Common Equity Tier 1 Capital Ratio	77.71%	70.25%
Total Tier 1 Capital Ratio	77.71%	70.25%
Total Capital Ratio	78.69%	71.25%
Basel III Leverage Ratio	36.71%	32.13%

40. EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements.



41. SELECTED PERFORMANCE INDICATORS / KEY FINANCIAL DATA

	Current Period	Previous Period
	2024 Rs.	2023 Rs.
Regulatory Capital Adequacy		
Common Equity Tier 1 Capital	6,092,828	5,649,389
Total Tier 1 Capital	6,092,828	5,649,389
Total Capital	6,169,240	5,729,840
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement -7%)	77.71%	70.25%
Total Tier 1 Capital Ratio (Minimum Requirement - 8.5%)	77.71%	70.25%
Total Capital Ratio (Minimum Requirement - 12.5%)	78.69%	71.25%
Basel III Leverage Ratio (minimum requirement : 3%)	36.71%	32.13%
Regulatory Liquidity Requirement		
Liquidity Coverage Ratio (%) (Minimum Requirement : 100%)		
Liquidity Coverage Ratio (%) - Rupee	1455.00%	1812.00%
Liquidity Coverage Ratio (%) – All Currency	4323.65%	3909.81%
Net Stable Funding Ratio % - (Minimum Requirement 100%)	186.00%	172.00%
Assets Quality (Quality of Loan Portfolio)		
Impaired Loans (Stage 3) to Total Loans, Ratio (%) *	1.74%	7.29%
Impairment (Stage 3) to Stage 3 Loans, Ratio (%) *	36.81%	8.34%
Profitability		
Net Interest Margin, (%)	8.48%	14.59%
Return on Assets (before Tax). (%)	3.46%	8.08%
Return on Equity, (%)	3.04%	7.47%
Memorandum Information		
Credit Rating	AAA/Stable/P1 (RAM Ratings)	AAA/Stable/P1 (RAM Ratings)
Number of Employees	61	56
Number of Branches	3	3

* Including Undrawn Portion of Credit

CERTIFICATION:

We, the undersigned, being the Country Head and the Head of Finance of Public Bank Berhad - Sri Lanka Branch jointly certify that:

- (a) The above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka;



Hsin Haw Li
Country Head
24 February 2025



Ajith Dhammika Lanerolle
Head of Finance
24 February 2025

