COMMITTED TO GROW

Annual Report 2018

PAN ASIA BANK
The Understanding Bank

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COMMITTED TO GROW

Pan Asia Bank has always been a reliable bank and we have consistently kept our pledge to deliver superior banking products and services while offering increasing value to our stakeholders. We are known for our wealth of experience and bold attitude – the resources of extraordinary talent combined with solid expertise that guarantee our customers excellence in financial solutions, delivered across diverse digital platforms.

The year reviewed in this report has been a challenging one, yet your Bank has continued to move forward on multiple fronts. Our leadership remains confident and focused on our commitment to optimum growth, as we anticipate better opportunities for sustainable value creation in the years ahead.

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SUSTAINING LIVES

01 Overview

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About Pan Asia Bank

Our 23–year journey has been one that is filled with achievements, challenges and learning experiences ... rendering us all the more resilient. There certainly are some life truths we have learnt along the way that are shaping our future trajectory and ethos for the better.

Firstly, we no longer believe we are just in the banking business; but that we are in the business of building relationships that are steadfast and which will endure.

Strong relationships with our customers and other stakeholders matter most to us, because in this day and age, where technology is replacing human interaction, we still believe there is no substitute to personalised relationships when it comes to fulfilling the financial needs of our clients. After all, they are entrusting us with their financial future. Our realisation has helped us align with our tagline, 'The Understanding Bank', in the most optimal way.

The year under review was a tightrope walk in more ways than one.

Despite the challenging external conditions, we remained strong and steady because we hold an unwavering faith in ourselves - that we can overcome these challenges and prevail as a great, not just a good, bank.

Our introspective nature has empowered us to convert headwinds into tailwinds. Yet, our task is not done. For that we have the patience, and more importantly, we have the resolve to take the right decisions.

Fortunately, our resources are well in place with the right tools to help us deliver on our brand promise. Our corporate culture, the values and the belief system are all directed at providing you with the best financial solution; whether you want to build your dream house or whether your business needs expansion to make it to the next level or whether you want the highest return for your investment or whether you need the full financial independence during your retirement. Whatever that may be, we have the right solution.

Our balance sheet will tell you a lot, but not about the youthful, dynamic and experienced people that make us who we are. Our people have been equipped with the right skills and attitude to listen to you patiently so that they truly understand you better. Speed, compassion, efficiency and agility are their strengths.

Just as we celebrate our success this year, we remain mindful of some unresolved challenges we have to address going forward, for the way we respond to them will determine our future.

This is where the strength of our leadership demonstrates its credentials, steering the Bank through the choppy waters, focusing on raising capital and overcoming challenges posed by external environment.

Despite a year of external upheavals, we remain secure in our skin and optimistic about what lies ahead. We have stoked our engines and they are fired up and ready to roar, delivering excellent results in the ensuing year and beyond.

Our Vision

To become the most customer preferred commercial bank in Sri Lanka.

Our Mission

We will create the largest satisfied customer base by providing professional, personalised, secure, quality banking and financial services, using modern technology and innovative products. We will delight our customers, create a better future for employees and enhance stakeholder value.

Our Values

Act with Courage and Integrity

We stand firm for what is right, and work with absolute trust and confidence in all our dealings.

Dependability

We demonstrate consistent performance by fulfilling expectations, be personally accountable to deliver on commitments.

Team Work

We are a group of strong and diverse individuals who collaborate with each other and are unified by a clear common purpose.

Strive for Excellence

We will put forth our best to provide the highest quality of Banking services by understanding customer needs and exceeding expectations.

Commitment

We are dedicated to the success of our organisation and stakeholders, including customers, employees and ourselves.

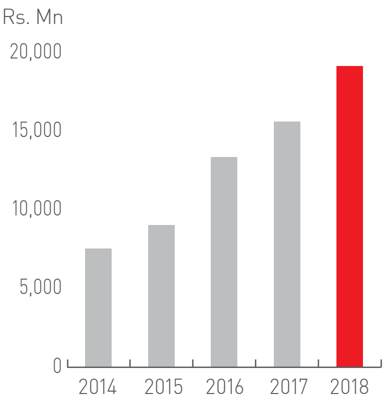
Mutual Trust and Respect

We connect to customers, communities, regulators and each other with respect, dignity and with mutual trust.

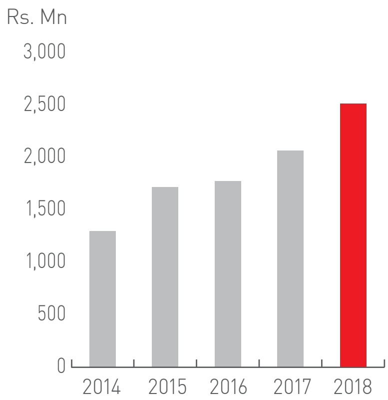
FINANCIAL HIGHLIGHTS

	2018	2017	Change %
Results for the Year (Rs. Mn)			
Gross Income	**21,672.19**	17,684.67	22.55
Net Interest Income	**6,518.29**	4,706.27	38.50
Total Operating Income	**8,926.62**	6,678.60	33.66
Operating Profit before Taxes and Levies on Financial Services	**2,600.66**	2,451.93	6.07
Profit before Tax	**1,909.66**	1,875.46	1.82
Profit for the Year	**1,541.64**	1,390.50	10.87
Position at the Year End (Rs. Mn)			
Loans and Advances - Gross	**113,494.42**	100,955.38	12.42
Total Assets	**154,026.28**	138,501.69	11.21
Due to Depositors	**118,627.35**	107,193.03	10.67
Shareholders' Funds	**11,246.64**	10,669.89	5.41
Financial & Investor Ratios			
Net Interest Margin (%)	**4.37**	3.61	21.05
Return on Equity (%)	**13.73**	14.86	(7.60)
Return on Assets (%)	**1.03**	1.07	(3.74)
Cost to Income Ratio (%)	**48.88**	56.51	(13.50)
Earnings per Share (Rs.)	**3.48**	3.31	5.14
Net Assets Value per Share (Rs.)	**25.41**	24.11	5.39
Market Price per Share (Rs.)	**14.80**	15.70	(5.73)
Statutory Ratios			
Capital Adequacy Ratio			
Common Equity Tier I Capital Ratio (%) (Minimum Requirement - 6.375%)	**11.51**	11.38	1.14
Total Tier I Capital Ratio (%) (Minimum Requirement - 7.875%)	**11.51**	11.38	1.14
Total Capital Ratio (%) (Minimum Requirement - 11.875%)	**13.32**	13.53	(1.55)
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)			
Domestic Banking Unit (%)	**29.17**	23.25	25.46
Foreign Currency Banking Unit (%)	**20.09**	27.04	(25.70)
Liquidity Coverage Ratio (Minimum Requirement - 90%)			
Rupee (%)	**166.08**	208.84	(20.48)
All Currency (%)	**136.52**	195.36	(30.12)
Non Performing Advances Ratio (%)			
Gross	**5.44**	4.36	24.77
Net	**3.08**	3.05	0.98

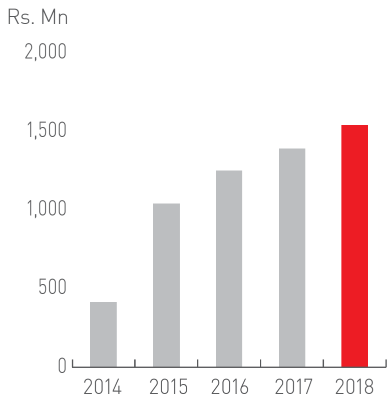
Interest Income

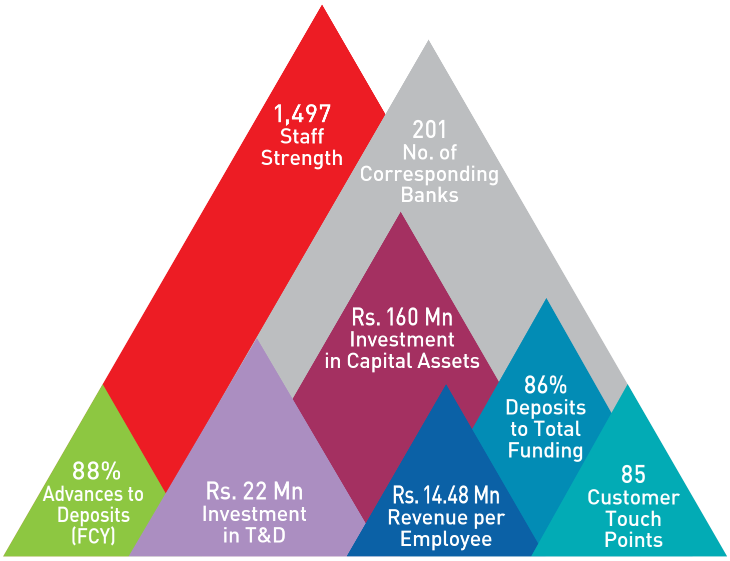


Non Interest Income

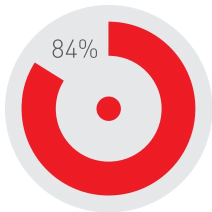


Profit for the Year

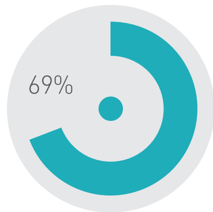




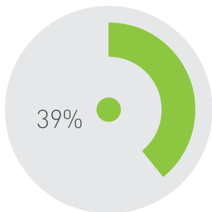
Forex Gain - Trading



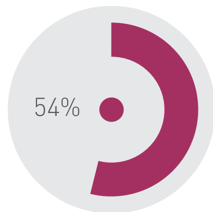
Impairment Cover



Net Interest Income



Other Operating Income



Our investment into our people, customers and resources remain our core strengths, our enablers of continued growth.

Gross Income
Rs.21.67 Bn
Increased by 22.55%

Loans and Advances
Rs.113.49 Bn
Increased by 12.42%

Deposits
Rs.118.63 Bn
Increased by 10.67%

Once again, your Bank has demonstrated our commitment to grow, having maintained our momentum and recorded a steady growth during the year.

And as we advance into the future, we remain confident that we will uphold this commitment, ensuring that we hold fast to the promise of even greater value in the days to come.

ACCOMPLISHMENTS OF THE YEAR

Fastest growing Master Credit Card portfolio in Sri Lanka

In October 2018 Pan Asia Bank was recognised for its "Fastest growing Master Credit Card Portfolio in Sri Lanka - 2017" by MasterCard International. The Bank's Credit Card portfolio has been among the fastest growing portfolios in Sri Lanka in recent years.

Launching first ever 'Rising Interest Rate FD Product'

Pan Asia Bank in 2018 introduced its 'Rising FD' - the first ever fixed deposit in the country with an increasing interest rate.

The interest rate of the two year fixed deposit is structured in such a manner that its interest rate may increase at 6 - month intervals during the deposit period, in line with the market interest rates.

The salient feature of the product is that the deposit holder is guaranteed of a minimum interest rate to safeguard him/her from a declining interest rate environment.

Building a knowledge house in credit

For the first time, the Bank initiated an up-skilling program titled, 'Credit Certification Program' to give the Bank's staff a rigorous training on credit.

As a result, in December the Bank saw its first batch of 50 credit officers who successfully concluded the 12 - months rigorous program being certified and recognised by the Bank's senior management team.

Empowering rural farmers to reach global markets & commercial farming

In a bid to help and encourage commercial farming, the Bank in 2018 provided financial assistance to farmers in Ipalogama in Anuradhapura to begin Guava farming via a refinancing scheme while further concessional funds were provided to them under the government's interest subsidy scheme under the Enterprise Sri Lanka initiative to set up an innovative Drip Irrigation System to help improve efficiency in using water for better and improved harvest.

Consumer convenience through branch re-locations

The Bank continued to enhance customer convenience at its branches by way of re-locating its branches at convenient locations with ease of accessibility, adequate parking facility and spacious branch interior set up. To this end, the Bank re-located two of its branches in Negombo and Kadawatha during 2018 with more in the lineup.

Empowering SMEs

The Bank in collaboration with the National Chamber of Commerce conducted two workshops for its SME clientele in Colombo and Down South to equip them with legal aspects of their businesses with a special emphasis on industrial law.

Successful completion of foreign funding line

During 2018, the Bank successfully completed its US $ 22.75 million term loan facility entered in to with Micro, Small & Medium Enterprise Bonds S.A. as the Bank received its final tranche.

FLOWING INTO THE FUTURE

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Management Information and Executive Reviews

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CHAIRMAN'S REVIEW

Opportunities for sustainable value creation

I continue to believe that our diversified business model, nationwide franchise, and investment in innovation - along with our commitment to the corporate goals will create long-term value for our investors

Growth

Profit for the Year
Rs.1.54 Bn
Increased by 10.87%

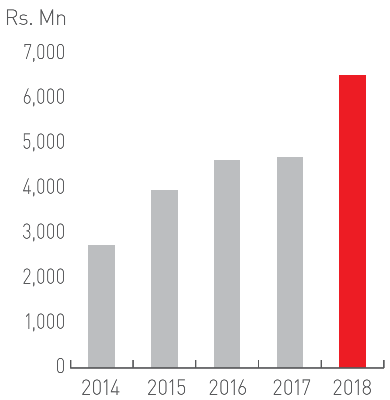
Total Assets
Rs.154.03 Bn
Increased by 11.21%

Shareholders' Funds
Rs.11.25 Bn
Increased by 5.41%

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the Annual Report and Audited Financial Statements for the financial year-2018. At the outset I would like to state that I am deeply honoured to give leadership to the Board of Pan Asia Bank, particularly during what turned out to be a challenging year for the nation, the economy and the sector as a whole. Such trying times truly test the mettle of leaders, employees and the sustainability of the Bank's framework. I am pleased to note that your Bank proved more than equal to the task and surmounted tough obstacles by leveraging on sound systems and processes to emerge as a better, stronger and a more customer-focused bank than before.

Net Interest Income



Operating Environment

The operating conditions have never been more challenging for the banking sector in the recent past than they were in 2018, with moderating growth in new loans and the sharp fallout in asset quality across the sector, in response to the tight monetary and fiscal policies instituted by the Central Bank of Sri Lanka and the Government. The Central Bank of Sri Lanka was keen on maintaining a monetary policy targeted at containing inflation, with interest rate decisions taken to maintain inflation levels between the 4% to 6% range in the medium term, deemed an acceptable level which would neither overheat the economy nor discourage economic activities.

It was admirable that the regulator took bold steps to implement several macro-prudential measures and timely dissemination of information which helped the industry to maintain an acceptable level of growth without being severely hurt by high interest rates. A measure of cooling down in the economy was witnessed during the year, greatly driven by consumer demand and thereby consumer lending during the last three years which could not be sustained for too long.

On the other hand, several income tax exemptions and reliefs which were available for interest and non-interest income earlier were abolished in 2018 and new taxes such as the Debt Repayment Levy were brought in to rein in the budget deficit by bolstering Government revenues. Although the measures were brought in to establish much-needed fiscal discipline which in turn will lead to stronger macro-economic fundamentals in the medium term, their impact is having a knock-on impact on the sector earnings.

Furthermore, the new financial reporting standard on financial instruments - SLFRS 9 - and its first time adoption is estimated to have a substantial impact on profits and capital as it results in substantially higher impairment provisions for the entire banking sector.

Meanwhile, the escalating political situation in the country during the final quarter of last year and the global liquidity tightening had a bearing on the domestic economy which soured investor appetite, particularly that of the foreign investors.

Financial Performance

As is evident, year 2018 was a challenging one for the banking sector and thus your Bank had to combat its share of challenges both externally and internally. In the face of the challenges that prevailed during the period under consideration, the Bank's financial

CHAIRMAN'S REVIEW

We expect that investments in innovation will pay off in revenue growth and expense reduction. Finally, a disciplined process is well underway to consolidate functions across the enterprise and simplify procedures and systems, resulting in significant cost savings and improved effectiveness.

performance was noteworthy given that its growth had to be carefully managed due to challenges arising from capital constraints.

Against this background, the loan book recorded a more modest growth of 12.42% for 2018 as your management took some measured approach for the growth last year, as we prioritised maintaining our regulatory capital ratios while reining in asset quality from weakening. Overall, the Bank's recorded growth in its assets of 11.21% which was satisfactory albeit below the potential of your Bank. This growth resulted in a bottom line growth of 10.87% to Rs.1.54 billion. Your Bank made progress in a number of areas both financially and operationally. At the outset, our total operating income grew by 33.66% on the back of a 12.42% growth in the loan book while containing the impact from the rising delinquencies seen across the industry.

The Board remains positive of the progress made in securing the required capital during the first quarter of 2019 upon which your Bank could most likely accelerate the growth to accomplish more ambitious financial results.

I continue to believe that our diversified business model, nationwide franchise, and investment in innovation - along with our commitment to the corporate goals will create long-term value for our investors.

Consolidating our Strengths

Much of the work which is already underway to improve risk management and controls aspects will benefit the customer experience and should lead to a reduction in overall operating expenses going forward. We expect that investments in innovation will pay off in revenue growth and expense reduction. Finally, a disciplined process is well underway to consolidate functions across the enterprise and simplify procedures and systems, resulting in significant cost savings and improved effectiveness.

In this respect, your CEO, Nimal Tillekeratne, has been relentless in making precise changes that are required for us to become a better and a stronger bank while gradually pushing to achieve its broader goals even when the external conditions remained extremely challenging.

While your CEO, in his review, will be elaborating on this transformation process that he is leading, I would like to highlight some of the actions and decisions that the Board of Directors has taken to make the governance and board oversight more robust within the institution. It is my belief that our actions may have helped the Bank to be better prepared for the external challenges early on and be prepared to face them with much vigour.

Robust Risk Management

As a Board, we strive to maintain and strengthen a high level of corporate governance, continuously improving the corporate transparency ensuring healthy development of the Bank and endeavouring to enhance its corporate values. Our continuous efforts in corporate governance are set out on page 72 in this report. The Board recognises the need to continue to strengthen and enhance our oversight and risk management practices impeccably. Your Board is committed to meet the expectations of our regulators whilst protecting and serving the interests of our shareholders, customers, team members, and communities.

Our biggest priority has been and will continue to be maintaining your Bank's capital levels in compliance with the regulatory standards, for which we are in constant communication with the regulator apprising them of the steps being taken by the Board and the management to enhance the capital levels.

Our Board Strategic Planning Committee regularly meets to discuss the ways and means of staying in line with the capital augmentation plan shared with the regulator which will ensure that the Bank maintains its growth and deliver profits according to the board approved strategic plan and the budget.

One of the biggest fallouts from the tight economic policies during last year was the rising Non-Performing Loans (NPLs) in the banking sector. The Board has been helping management to take some crucial pre-emptive measures to contain the impact arising from same on your Bank. The directors, through the board committees, engaged in a comprehensive and independent analysis of every function and activity from credit standards to credit papers to post-disbursement until the recovery of facilities.

The Board Credit Committee and the Board Integrated Risk Management Committee played a key role in strengthening the existing credit standards and bringing in new ones, while the BIRMC thoroughly reviewed all the risk management and internal controls in all three main areas i.e. credit, market and operations. Understanding that effective risk management protects and benefits all stakeholders, the Board has made several other important changes so that risks are properly identified, evaluated, and escalated in a timely manner.

In appreciation

I offer my gratitude to my fellow Board Members for their invaluable guidance and contribution to lead the Bank. I would like to express my appreciation to the corporate management team, all the employees for sharing the Bank's vision and working tirelessly to bring this vision to life even amid the most challenging times.

I also offer my thanks to all our customers, business partners who remained with us through good times and challenging times and for the regulator who provided guidance at all times.

And to you, our shareholders, we recognise the commitment that you, as investors in Pan Asia Bank, have placed in your Bank. We are confident that the optimistic leadership provided by our CEO, combined with the operational and cultural changes we have made and are making at the Bank will mark year 2019 as a positive inflection point on our quest to build a better bank. We greatly value and appreciate your investment.

I am confident that we will make use of this moment to make 'Pan Asia Bank' much stronger for the years to come.

Dimuth Prasanna
Chairman

21st February 2019

CHIEF EXECUTIVE OFFICER'S REVIEW

Focused towards optimum growth

We will ensure that our customers are satisfied, easy operations for staff, comply with all regulatory requirements and finally deliver the sustained results - financially and other wise to our shareholders and our community at large.

Growth

Total Operating Income
Rs.8.93 Bn
Increased by 33.66%

Net Interest Margin
4.37%
Increased by 21.05%

Net Assets Value per Share
Rs.25.41
Increased by 5.39%

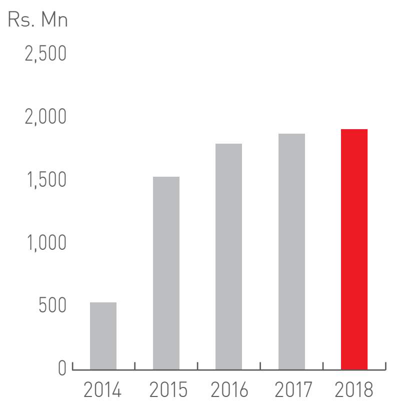
Dear Stakeholders,

This year has been a year of transformation for Pan Asia Bank as we continued to add more muscle to our systems, processes and staff to make your Bank more future ready, thus we look forward to building on these strengths in the months ahead.

We did this amid a great deal of challenges, both within and outside - as we faced a crucial growth conundrum amid our own capital constraints and the inevitable vagaries of a slow moving economy, consequences of both of these challenges, I will explain in detail later.

As I said in my last year's annual review, from the beginning, in driving your Bank, our mantra was 'Stability over Swagger' - the only thing which will ensure a sustained results to create shareholder wealth in the long term.

Profit before Tax



While we achieved a great deal in 2018 particularly in building further resilience, we look forward to leverage on those strengths to weather the storms in the political economy and the shifts in the monetary policy which none could claim immunity from in our economy.

Strengthening the risk and compliance controls became a top most priority during 2018 in the light of challenging macro-economic conditions which spilled over in to the Banks' growth and asset quality.

The painful results, however, made us and rest of the players in the industry to take a more disciplined approach to risk management, particularly in credit risk, which I believe gave everyone a good taste of the changing fortunes in tandem with economic cycles.

We saw this coming and took measures before the situation ran deeper. Our somewhat conservative approach to growth and risk also helped us to navigate these challenges with very little casualties compared to some of our bigger counterparts who escaped with bruises suffered from this economic fallout.

For instance, when compared to some of the larger and more resilient players who for years touted their best asset quality had steeper falls in their asset quality while your Bank managed to make a soft landing.

I am pleased and optimistic about the actions we took in 2018 to minimise the impact on us from the economic fallout and am confident we will be able to resolve the prevailing matters while continue to serve our customers, support team members and equally help our communities.

Therefore, I can say without any hesitation that Pan Asia Bank today is a better bank than it was a year ago due to these measures and am confident we will be even better a year from now.

We still have work to do. We have put the right leaders in the right roles to drive that work, and together we are focused on rebuilding the trust of our stakeholders and becoming a stronger bank.

Challenging operating conditions

Your Bank operated in challenging operating conditions which saw a slowdown in private sector loan growth, rising non-performing loans and higher effective tax rates on banks.

CHIEF EXECUTIVE OFFICER'S REVIEW

Our digital offerings such as the state-of-the art mobile banking app and the re-launched website are being constantly updated with consumer-friendly features

Despite the 25 basis points cut in the standing lending facility rate in April 2018, it failed to ease market interest rates which regardless continued its upward path. Later in the year, the Monetary Board was forced to raise the benchmark rates to rein in further capital flight and weakening rupee against dollar.

During the year, the benchmark 1 - year treasury bill rate rose by 230 basis points to 11.20% and the prime lending rate rose by 91 basis points to 12.09% to end the year.

The situation was further exacerbated by the higher taxes which came in to effect with the implementation of the new Inland Revenue Act which dampened the disposable income of the people.

Steeper fall in the Sri Lankan Rupee against the US Dollar (19% in 2018) made matters worst for the people as their cost of living soared with a knock on impact on businesses and thereby weakening their debt serviceability.

This had a dual impact on banks - slowdown in the demand for new loans and increase in sour loans - as individual and corporate borrowers found it difficult to service their loans as their operating cash flows came under pressure.

According to the latest data available, the loan growth in the sector came at 19.6% in 2018 from 16% in 2017 due to some acceleration seen in the final quarter. The absolute Non-Performing Loans (NPL) in the sector rose by Rs. 102 billion.

Meanwhile the industry gross NPL ratio increased to 3.4% from 2.5% through the year which is considered substantial and there has also been a surge in the re-scheduled loans in the sector as the banks attempted to contain the impact it has from the weakening asset quality on their books.

While your Bank took some pre-emptive measures throughout the year to mitigate the impact from this fall-out, we ended the year with a gross NPL ratio of 5.44%. Meanwhile your Bank recorded a net NPL ratio of 3.08% for 2018 barely unchanged from the previous year due to prudential provisioning made for the portfolio. This is while the industry ratio rising substantially.

In recent times, the banking sector has become an easy target of the policy makers to fill their coffers without much effort. As a result, industry specific taxes such as debt repayment levy which came in to effect from October 2018 effectively raised the banking sector's effective tax rates from around 50% to close to 60% in 2018. Due to challenging operating conditions, Fitch Ratings maintains a negative banking sector outlook in 2018.

However, one notable improvement seen in the banking sector was the improvement in capitalisation levels across most banks in view of the higher capital adequacy ratios under Basel III. This made banks more shock resilient and stronger than ever to face eventualities.

However, the implementation of SLFRS 9 in 2018 presents additional challenges for the sector as the shift added more pressure on capitalisation through a possible significant one-off adjustment and drove up the credit costs significantly due to its expected credit loss method as opposed to the earlier incurred credit loss method of identifying and recognising such losses.

While the Basel III capital shortfall could widen though the impact of SLFRS 9, the impact on regulatory capital ratios is spread out across several periods as later allowed by the regulator.

While the moderation in demand for new loans adversely affected the Banks' pre-impairment profits, the bottom-line was weighed down by higher credit costs and taxes.

Pull back on growth ahead of capital constraints

While the aforementioned challenges of the economy played a part in framing the Bank's performance during the year, what was more pronounced was the adequacy of the level of capital, more precisely the Tier 2 capital, which became a limiting factor in determining the pace of growth the Bank could accommodate.

Despite these challenges, our loans and advances book recorded a double digit growth in 2018, which I believe is a decent growth to have recorded given the circumstance that we faced, both internally and externally.

More specifically we grew our loans and advances book by 12.42% or Rs.12.54 billion during the year. Most of this growth came during the first half of the year as during the second half, the management became pre-occupied with the need to ramp up Tier 2 capital, a pre-condition in order to sustain the growth in the loans.

This was because our efforts in infusing capital which began from the beginning of the year met with numerous challenges which were inevitable and beyond our control.

The weak domestic economy, strengthening of the dollar and the increase in the benchmark interest rates in the United States triggered heavy pull back by the foreign investors and the constitutional crisis triggered in the latter part of October kept the investors further at bay.

As a result, in November all three major rating agencies downgraded Sri Lankan economy raising doubts about the ability to manage external liabilities due to an absence of a budget as the political impasse dragged on without a government for roughly 6 weeks.

However, I am happy to state we have now reached the final stages in our negotiations and are left with only completing the formalities with a consortium of foreign investors to bring in the much needed Tier 2 capital.

Finally we see our relentless efforts are paying off and we hope we would be better equipped to accelerate the growth in our loan book during the months ahead towards our desired levels.

Period of deep reckoning; continued reform agenda

To sustain results during this period of hiatus in our major lending activities we undertook a thorough review of the products we offer and the internal procedures we use to get the things done.

For instance we re-calibrated our lending portfolio by way of allocating more resources in to high yielding, high margin products such as consumer loans, credit cards and gold backed lending from low yielding ones specially in the SME and Corporate portfolios.

In this way we could optimise the use of our funds to earn better and higher returns than leaving them stuck within assets which earns barely anything for the Bank.

We could do this re-balancing act quite effectively within the constraints of our capital ratios and maintain our margins while offsetting the impact from the rising funding cost.

During this period we took every possible measure to identify and close loopholes in our processes, strengthen them further and institute robust credit standards where potential leakages could occur.

For instance, during the final quarter we revised the standards for our consumer loans by way of enhancing the minimum eligibility criteria with a view to clamp down on poor quality borrowers and thereby keeping the portfolio's NPL level at an acceptable level.

In this way we could undertake broader changes in our sales teams in areas of leasing, consumer loans and credit cards to identify and address some of the drawbacks in the sales process and to bring the much needed balance between branches and the sales team for higher productivity.

As part of this process we simplified and streamlined the sales force and their incentive structure so we continue to put our focus and resources on what matters: the unique needs of customers, the branch team member experience, and our business priorities. This new structure is more efficient, improves risk management, and brings your Bank closer to customers and front-line team members.

All our steps to build a better Pan Asia Bank began with actions to address our challenges. We have acted to rectify shortfalls, made right decisions, and ensured that such problems do not recur in the future.

With these well placed processes, system and team reforms, we will ensure that our customers are satisfied, easy operations for staff, comply with all regulatory requirements and finally deliver the sustained results - financially and otherwise to our shareholders and our community at large.

Financial report card

As difficult as 2018 was in many respects, the Bank managed to put up some modest financial performance for our shareholders.

Through a balanced mix of net interest income and non-interest income, albeit became slow from the 2H FY'18, your Bank generated Rs. 21.67 billion in revenue in 2018 registering a growth of 22.55% from 2017 and an profit after tax of Rs. 1.54 billion or Rs. 3.48 of earnings per share.

We recorded this performance amid the challenges of higher interest rates which remained during most part of the year, relatively lower demand for credit and sluggish growth in the economy.

These financial results reflect the sheer determination of our team to take bold decisions in putting things on the correct path and the strong risk discipline implanted within all our decisions.

By the year end, the total deposits stood at Rs. 118.63 billion, up 10.67% from 2017 and the loan portfolio grew by 12.42% to Rs.113.49 billion.

As I reiterated earlier, if not for our capital restrictions, we could have expanded our loan book even amidst the moderating demand conditions meanwhile our deposit growth languished due to some specific reasons.

We consciously scaled down the Bank's dependency on some large institutional and more precisely the high net-worth

CHIEF EXECUTIVE OFFICER'S REVIEW

We are focused on managing the Bank to achieve long-term value through a diversified business model, strong risk discipline, efficient execution, a solid balance sheet and a world-class team.

individuals' deposits as we are now on a gradual path towards reducing our dependency on them.

While they have been buttressing our funding profile in times of need providing us with the needed liquidity, last year we saw that the time was both opportune and favourable for us to slowly cut back on our dependency on these large ticket size deposits while we have the comfortable level of liquidity as we pulled back on new lending.

Therefore, our decision to let go of some of these large ticket size deposits clearly overshadowed the progress we made in retail sector achievements.

Nevertheless the exercise helped us win thousands of new customers while reducing our overall funding cost which we otherwise would have incurred for some large deposits.

Meanwhile the credit cost hurt us the most coming from the dual impact from the high sour loans and first time adoption of the SLFRS 9 which recognises and measures such costs on a more prudent basis - expected credit loss method.

Our impairment charge for the year which is based on 'Expected Credit Loss' principles for the year has crossed Rs. 2.0 billion mark in 2018 compared to the 'Incurred Credit Loss' impairment charge of Rs. 494.39 million of the previous year.

We had to make provisions against some individually significant customers during the year due to the general cracks appeared in their credit quality. As a result our individual impairment for the year was Rs. 1.30 billion, a steeper increase from Rs. 337.3 million in 2017.

Meanwhile our collective impairment charge for the year rose to Rs. 719.8 million from Rs. 160.2 million, close to five fold increase between the two years partly due to the aforementioned shift in the provisioning model from the incurred loss method to more forward looking expected credit loss method under SLFRS 9.

Having said that, we made some crucial in roads in to certain hard core Non-Performing loans to recover in full or part and were robust in our litigations to recover some of the other facilities in question.

From a capital standpoint, we ended 2018 with total CET 1 capital of Rs. 11.34 billion and Tier 1 capital ratio of 11.51%, while the regulatory minimum was 7.875%.

We ended the year with a Total Capital Adequacy Ratio of 13.32% compared to the 11.875% required to be maintained at a minimum by the regulator. However starting from 1st January 2019, the regulatory minimums for Tier I and Total Capital ratios increase to 8.5% and 12.5% respectively while the latter requiring more immediate action.

This was the area which I dwelled in to explain you earlier and thus will receive our continuous attention.

Our team, our most valuable asset

I cannot be more proud of my team today as they held steady and strong with their bank riding some tough times demonstrating the loyalty and trust in the Bank.

Our staff is the most valuable resource and a key competitive advantage as we have the youngest cadre in the industry with close to 70% being below 30 years of age.

So, your Bank never gets older along with you.

Your Bank would not have been able to transform in to a better and stronger Pan Asia Bank without the talent and dedication of our staff.

In order to create an atmosphere for our team in which everyone feels respected and empowered to speak up, we seek to nurture a diverse and inclusive workplace.

How our work gets done is as important as getting the work done. Promoting an atmosphere of engaged team members not only makes Pan Asia Bank a great place to work, it results in great customer service as well.

During the year the Bank promoted 291 staff members at all levels though a comprehensive evaluation process which ended with an interview panel which I led.

The process left us valuable inputs on the table for us to take in to account to better in our day to day decision making as well as to be more pragmatic.

We consider succession planning as a very serious affair as anything else in the Bank. I said previously that commitment to succession planning doesn't end with merely statements and we walk the talk.

For this purpose we identified a cross section of middle level managers with the potential to fast track their journey towards the senior management levels to take the mantle from where we leave.

We did not just stop at that, we gave them additional responsibilities, challenging projects and conducted a leadership program for a selected set of middle level managers to groom them in to fully fledged corporate leaders and excellent strategists who will have the audacity to take challenges head on to take this bank to greater heights within a few years.

Another cornerstone reform was our much touted structured performance appraisal system with reward based key performance indicators directly linked to performance which was put to practice this year.

As our staff up-skilling efforts continued unabated, the 1st batch of 50 credit officers was recently recognised for successfully completing the Credit Certification program.

This programme spanning for a period of 12 months, includes workshops, training sessions and presentations and is delivered by both internal and external trainers.

We are making investments in our team members. During 2018, we raised the minimum wage of certain categories of staff and further we expect to raise the minimum pay further taking into account the rising cost of living and competitor pay.

We continue to offer a compensation package that includes competitive salaries, training and development options, leadership opportunities, and benefits that includes work-life balance while expecting to focus on these aspects more.

Innovation

Pan Asia Bank is a longtime leader in providing innovation since it introduced its ground breaking product for pensioners, 'Sammana'. Last year, being a very challenging year, gave us more space to engage in R&D which resulted in two truly innovative product offerings.

One, a 'Rising FD' gave a fitting product to Sri Lankans to save their hard earned monies in a fixed deposit while giving them the benefit of the rising interest rates in the market - meaning the rate is not fixed - while safeguarding the deposit holder with a guaranteed floor rate at a time when the interest rates started going south.

Given the rising interest rates in the market, the people embraced the attractive features this product and the Bank built a solid portfolio demonstrating the extent to which the Bank became successful in its innovations.

Further we are also enhancing our branch experience, continuously providing convenience and service quality via our network of 85 branches.

Our digital offerings such as the state-of-the art mobile banking app and the re-launched website are being constantly updated with consumer-friendly features and I am excited about the new kinds of value we are creating through these channels. The true value of innovation is when technology provides our customers more control and transparency to help them succeed financially.

Risk management

Managing risk is complex and challenging, and we have strengthened our risk framework substantially over the past year. With greater oversight of risk, we have created more consistency and have a better enterprise view of how we are managing risk.

As we refine and build upon this work, we are expanding our efforts in 2019 with a focus on compliance and operational risk management, consistent with the regulator. We want to ensure we have a fully integrated, cohesive, and bank wide approach to risk management.

Last year we introduced a comprehensive 'Risk Based Pricing Policy' so that going forward all new facilities will go through the policy and will get a risk rating with an applicable pricing to the facility at which price only the Bank will approve the loan.

In this way the Bank will be adequately compensated for the risk it undertakes and more importantly the Bank will know the full extent of the risks that it entered in to and will make more informed decisions based on the risk perspective.

Our duty towards community

Irrespective of the numerous headwinds which hit us hard, both financially and otherwise, we never wavered in our commitment towards the community at large.

Amongst many of our scattered community development and enhancement projects, one particularly stands out from the rest in terms of both scale and impact on the community we intended to serve.

In September, we funded a drip irrigation project in Ipalogama in Anuradhapura, a key agricultural and farming region, to help their young enterprising farmers who have been successfully cultivating 75 acres of guava but have been using inefficient irrigation methods due to their ignorance and lack of technical knowhow and funding.

Based on these factors, we decided to first educate guava farmers on the benefits of drip irrigation and

CHIEF EXECUTIVE OFFICER'S REVIEW

Our day-to-day efforts to transform Pan Asia Bank are the foundation of creating long-term success. I am optimistic that the investments we are making will allow us to serve our customers better and result in growth over the long term.

then, as the second stage, help them set-up drip irrigation systems on their plantations. We also organised a technical workshop including a field visit, sponsored by Bartleet Agrotronics, that enabled farmers to benefit from the specialised knowledge and expertise of drip irrigation systems in India.

The drip irrigation project in 2018 was the high point in our assistance to these farmers for whom we initially gave financial assistance in 2017 to begin guava cultivation in the area.

We were then able to offer viable financial assistance to them through our Kekirawa branch through the Central Bank's 'Swashakthi Loan Scheme' which by now have exceeded in to over 75 acres making it an export oriented commercial cultivation.

The Bank's involvement and commitment to assist the farmers of Ipalogama did not stop there as they realised that in order to reap the full benefits of their efforts; farmers of Ipalogama had to be introduced to better agricultural technologies. Hence, Pan Asia Bank decided to help them increase their harvest and substantially reduce cultivation costs by joining hands with the Global Climate Partnership Fund (GCPF), which is an investment fund dedicated to energy conservation and sustainable environment management.

Like these projects, we will continue to help our farmers and the broader agricultural community to successfully engage in commercial farming aimed at domestic food security and then exports, both of which have now become top national priorities.

We at team Pan Asia could take some humble pride in our projects, irrespective of their scale - big or small - as they have helped our farming communities which is considered the lifeblood of our economy in keeping us, the population fed, to engage in commercially viable farming which will both create a steady and high income stream which in turn help them to uplift their living standards.

We know that we are slowly and silently addressing our national priorities and we are happy about it.

Future outlook

Broadly I remain sanguine over the reminder of the year as we now stand ready more than any other time with strong processes, risk management systems and dynamic workforce in place to accelerate our growth no sooner we get our capital boost.

Our efforts for strengthening our capital will not end there. Hereafter we will continue engage with our shareholders to boost our Tier I capital base before it becomes a limiting factor for our growth agenda.

Towards that end, we have now revisited our capital augmentation plan, plus we will have to up our game plan to deliver strong earnings to accumulate in to our retained earnings which add up to our Tier I capital with our eyes set on the Rs. 20 billion minimum capital level by the end of 2020.

Up-skilling our staff and building a next generation of leaders is at the heart of our strategy and towards this end we will continue to invest more time and money as the people factor has become sine-qua-non in the banking sector.

Technology will play a crucial role during this process both as a support function to deliver our services fast and effectively and as a strategic enabler in bringing our banking services closer to our customers' fingertips.

Equally important is the gradual expansion of our brick-and-mortar customer touch points on an even keel with the growth in our assets, bottom-line and digital banking.

Meanwhile industry and the broader economy have almost embraced the new normal in the economy characterised with higher and rising prices, higher interest rates and weaker currency.

While we have our own views, we acknowledge that this is a systematic risk any individual entity faces when operating in an economy, which no one firm can escape.

Thus we are of the belief that we have to get ourselves acclimatised in to the new normal without complaining while liaising effectively with our regulators and parties in the government as an influential industry body working for the long-term benefit of the banking industry and the broader economy.

Our shareholders

Our goal to create long-term shareholder value is the last on our list because each of the other goals contributes to it. We recognise that you, our investors, have placed your trust in Pan Asia Bank, and we are focused on managing the Bank to achieve long-term value through a diversified business model, strong risk discipline, efficient execution, a solid balance sheet and a world-class team.

While staying on top of Basel III minimum capital and other regulatory requirements remain in place, I believe we will be able to continue to serve our customers with a sharp focus on the changes in the industry and market in terms of how people consume financial needs.

Our financial performance in 2018 was modest, but we can and should do better. In 2018, our return on assets was 1.03%, and our return on equity was 13.73%.

Our capital and liquidity stays above the regulatory minimums and we strive to maintain comfortable buffers under each going forward in order to ensure sustainable growth which will lead to continuous shareholder wealth creation.

Our day-to-day efforts to transform Pan Asia Bank are the foundation of creating long-term success. I am optimistic that the investments we are making will allow us to serve our customers better and result in growth over the long term. We are committed to living up to our potential for you, our shareholders.

In closing

I want to express my appreciation to our Board of Directors for the knowledge, experience and leadership they have shown during the past year.

Special thanks to my Chairman Mr. G. A. R. D. Prasanna and Deputy Chairman Mr. S. B. Rangamuwa, who stood close to me during these trying times, actively engaging with me.

During the past year, I have been asked many times by my fellow board members, "Nimal, why are you so optimistic even amid these challenges?" My answer is, "How can I not be?"

Pan Asia Bank is a strong bank with a rich, 23-year history. We have overcome challenges many times during our history. We have a solid foundation, exceptional businesses, and an outstanding team.

Our more than 1,400 team members are dedicated, talented, and committed - and, without a doubt, they are our most important resource.

We are working every day to rebuild trust with our stakeholders, and I am confident that we will achieve our goals.

Thank you for placing your trust in Pan Asia Bank and for your support. Our commitment to you is unwavering as we continue our transformation into a better, stronger bank.

Nimal Tillekeratne
Director / Chief Executive Officer

21st February 2019

BOARD OF DIRECTORS

Dimuth Prasanna
Chairman

Sarath Rangamuwa
Deputy Chairman

Mohan Abeynaike
Senior Director

Takashi Igarashi
Director

Toyohiko Murakami
Director

Jayaraja Chandrasekera
Director
(Resigned w. e. f. 12th February 2019)

Nihal Kekulawala
Director

Aravinda Perera
Director

Nimal Tillekeratne
Director / Chief Executive Officer

Nayantha Fernando
Deputy General Manager / Company Secretary

BOARD OF DIRECTORS

Dimuth Prasanna

Chairman

Mr. Prasanna was appointed as the Chairman in July 2017. He was appointed to Pan Asia Bank as a Director in May 2012 and was the Deputy Chairman from September, 2016 to January, 2017. He is the Managing Director of Wise Property Solutions (Pvt) Ltd and serves as a Director on the Boards of Royal Ceramics Lanka PLC, Royal Porcelain (Pvt) Ltd, Rocell Bathware Ltd, Country Energy (Pvt) Ltd, La Fortresse (Pvt) Ltd, Delmege Forsyth & Co. (Exports) (Pvt) Ltd, Delmege Insurance Brokers (Pvt) Ltd, Rocell Properties Ltd, Delmege Coir (Pvt) Ltd, Delmege Freight Services (Pvt) Ltd, Delmege Air Services (Pvt) Ltd, Lewis Brown Air Services (Pvt) Ltd, Hayley's Global Beverages (Pvt) Ltd. He has wide experience in various businesses & business management.

Sarath Rangamuwa

Deputy Chairman

Mr. Rangamuwa was appointed to the Board as a Director in August 2014 and was appointed as Deputy Chairman in January 2018. He is an experienced professional in Management, Finance, Credit and Marketing with over 28 years of senior management exposure having held key positions at strategic and operational levels. Mr. Rangamuwa is the Managing Director of Vallibel Finance PLC since it's relaunch and also serves as a Director of Hunnas Falls PLC. He is a former Director of Mercantile Investments PLC and also had stints at Central Finance and Ernst & Young. A Fellow of the Chartered Institute of Marketing (UK), Mr. Rangamuwa is a member of the Institute of Management Accountants (Australia) and has an MBA from the University of Southern Queensland. He is also a Fellow of the Sri Lanka Institute of Credit Management and holds a Post Graduate Diploma in Finance Administration from the Institute of Chartered Accountants of Sri Lanka and a Certificate in Foundation studies (Sports) from Unitec, New Zealand.

Mohan Abeynaike

Senior Director

Mr. Abeynaike was appointed to the Board of Pan Asia Bank in October 2014 and as the Senior Director in February 2015. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka. He was a Director of Sampath Bank PLC from 1995 - 2011. Mr. Abeynaike was the President of the Institute of Chartered Accountants of Sri Lanka and a member of the Securities and Exchange Commission of Sri Lanka. He has been Chairman/ Director of several companies and public sector organisations. Mr. Abeynaike is currently the Chairman of Asia Pacific Investments (Pvt) Ltd.

Takashi Igarashi

Director

A Japanese national, Mr. Igarashi is an enterprising businessman specializing in the re-structuring of unviable business, export of vehicles and heavy machinery from Japan, and development of IT systems. He served as the Chairman and Founder of ANZUK Legal Service based in Wellington. He is the Chairman of Ramboda Falls Hotels PLC. He sits on the Boards of NWS Holdings (Pvt) Ltd, NWS Management Services (Pvt) Ltd and Prime Ocean Foods (Pvt) Ltd. He was appointed as a Director of Pan Asia Bank in October 2012.

Toyohiko Murakami

Director

Mr. Toyohiko Murakami is the Chief Executive Officer of Bansei Group, Japan. Mr. Murakami has over 34 years of experience in managing various business fields consisting of Securities, Finance, Insurance and Real Estate. Mr. Murakami has a Bachelors Degree in Law from Kyoto University, Japan. Mr. Murakami joined Bansei Securities Co., Ltd. in November 2005 and was appointed as the Executive Vice President in February 2006 and as President & CEO of the company in June 2009. He is also the Chairman of Bansei Hoken (Insurance) Community Co., Ltd. which is a sister company of Bansei Securities Co., Ltd. Formerly, Mr. Murakami was with Zenkoku Hosho Co., Ltd. from November 2005 - February 2006 and as a Director of H.S. Securities Co., Ltd. from October 2000 to August 2005. He is the Deputy Chairman of Bansei Royal Resorts Hikkaduwa PLC and Chairman of Bansei Holdings LK (Pvt) Ltd, Director of Bansei & NWS Consultancy (Pvt) Ltd, Bansei Securities Capital (Pvt) Ltd and Vallibel Finance PLC. He was appointed as a Director of Pan Asia Bank in April 2013.

Jayaraja Chandrasekera

Director

(Resigned w. e. f. 12th February 2019)

Mr. Chandrasekera is a senior banking professional who has held Senior Corporate Management positions in Sri Lanka's leading private commercial bank, Hatton National Bank PLC, during his career of 35 years. He was appointed to the Pan Asia Bank Board in May 2015. He holds an MBA from the University of Sunderland, UK and a Post Graduate Diploma in Strategic Management. He is also a member of The Association of Professional Bankers, Sri Lanka and has undergone extensive training in banking, leadership and management both locally and at prestigious overseas institutions such as Mount Eliza Business Faculty, Melbourne University, Australia, National University of Singapore, Lloyds Bank TSB, UK, Development Bank of Philippines and AOTS, Japan.

Nihal Kekulawala

Director

Mr. Kekulawala counts over thirty years in the banking profession and was appointed as a Director in August

2016. He has held senior positions at Hatton National Bank PLC and played a strategic role in the diversification of HNB from Commercial Banking to Investment Banking, venture capital, stock brokering and life/ general insurance. Mr. Kekulawala served as the lead consultant and was responsible for setting up a Commercial Banking Operation in the Solomon Islands. He functioned as the inaugural CEO of the bank. He presently serves on the Board of several public companies.
Mr. Kekulawala is a Fellow of the Institute of Chartered Accountants UK and Sri Lanka, Fellow of the Chartered Institute of Bankers in England and has an MBA from the University of Manchester.

Aravinda Perera
Director

Mr. Aravinda Perera counts over 30 years in the Banking sector and functioned as the Managing Director of Sampath Bank PLC from 1st January 2012, until his retirement in September 2016. He was appointed to the Pan Asia Bank Board in August 2017.

Presently he is the Managing Director of Royal Ceramics Lanka PLC and Chairman of Singer Finance (Lanka) PLC. He is a Director of Hayleys PLC, Hayleys Aventura (Private) Ltd, Fentons Ltd and Hayleys Advantis Ltd.

He is also a former Governing Board Member of the Institute of Bankers of Sri Lanka and Past President of Association of Professional Bankers, Sri Lanka.

He is a Member of the Institute of Engineers of Sri Lanka (MIESL) and a Chartered Engineer (C.Eng.). He is also a Fellow of the Chartered Institute of Management Accountants (UK) (FCMA) and a Fellow of the Institute of Bankers - Sri Lanka (FIB). He also holds an MBA from the Post Graduate Institute of Management.

Mr. Perera was honoured with the "CEO Leadership Achievement Award 2016" by the Asian Banker and was also the recipient of the prestigious "Platinum Honours – 2014" award by the Postgraduate Institute of Management Alumni (PIMA) of Sri Jayawardenapura University. He was also honoured with the "Award for the Outstanding Contribution to the Banking Industry – 2015" by the Association of Professional Bankers.

Nimal Tillekeratne
Director / Chief Executive Officer

Mr. Tillekeratne was appointed as Director/Chief Executive Officer in April 2017. He counts over 40 years of service in the Banking industry in Sri Lanka and overseas. He is an Associate of Institute of Bankers, Sri Lanka and a passed finalist of Post Graduate Diploma in Business Statistics from University of Moratuwa. He started his career in banking with Commercial Bank of Ceylon PLC, and was the former Senior Deputy General Manager of Sampath Bank PLC and was also in the Board of Sampath Information Technology Solutions Limited, a wholly owned subsidiary of Sampath Bank. He was involved in setting up business processes at Cargills Bank for a short period and also was the Senior Deputy General Manager of Seylan Bank PLC overseeing bank's Core operations, Trade Service, Remittances Business, Alternate Banking and self service channels, Process digitization efforts, in addition to setting up the Bank's branch expansion ambitions on course. He views process digitization and automation as the way forward for quality customer service, cost control and growth in retail banking sphere. His exposure to various disciplines in the Banking industry is quite wide spread having headed Operations, Branch Credit, Commercial Credit, Credit Card Business, Collections at various banks locally and overseas.

Nayantha Fernando
Deputy General Manager / Company Secretary

Nayantha is an Attorney-at-Law with over 28 years of experience. She was appointed as the Bank's Company Secretary in 1998 and is serving the Bank for over two decades.

CORPORATE MANAGEMENT

Left to Right:

1. **Nimal Tillekeratne**
   Director / Chief Executive Officer

2. **S. Umakanthan**
   Deputy General Manager - Credit Administration

3. **Richie Dias**
   Deputy General Manager - Treasury

4. **Lalith Jayakody**
   Deputy General Manager - Chief Financial Officer

5. **Nayantha Fernando**
   Deputy General Manager - Company Secretary

6. **Naleen Edirisinghe**
   Deputy General Manager - Branch Credit

7. **Nalaka Wijayawardana**
   Deputy General Manager - Marketing and Personal Banking

8. **Lalith J. Fernando**
   Deputy General Manager - Chief Risk Officer

9. **Gerald Wanigaratne**
Deputy General Manager - Information Technology

10. **Upali Dharmasiri**
Deputy General Manager - Recoveries

11. **Jeremy De Zilva**
Assistant General Manager - Internal Audit

12. **Varuni Egodage**
Assistant General Manager - Legal

13. **Chandrika Ranawaka**
Assistant General Manager - Corporate Banking

14. **Harsha Kurukulasuriya**
Assistant General Manager - Operations and Administration

15. **Shiyan Perera**
Assistant General Manager - Branch Credit & Deposit Mobilization

CORPORATE MANAGEMENT

1. Nimal Tillekeratne

Director / Chief Executive Officer

Mr. Tillekeratne was appointed as the Director/Chief Executive Officer on the 3rd April 2017. He counts over 40 years of service in the Banking industry in Sri Lanka and overseas. He is an Associate of Institute of Bankers, Sri Lanka and a passed finalist of Post Graduate Diploma in Business Statistics from University of Moratuwa. He started his career in banking with Commercial Bank of Ceylon PLC, and was the former Senior Deputy General Manager of Sampath Bank PLC and was also in the Board of Sampath Information Technology Solutions Limited, a wholly owned subsidiary of Sampath Bank. He was involved in setting up business processes at Cargills Bank for a short period and also was the Senior Deputy General Manager of Seylan Bank PLC overseeing the bank's core operations, trade service, remittances business, alternate banking and self service channels, process digitisation efforts, in addition to setting up the bank's branch expansion ambitions on course. He views process digitisation and automation as the way forward for quality customer service, cost control and growth in retail banking sphere. His exposure to various disciplines in the banking industry is quite wide spread having headed operations, branch credit, commercial credit, credit card business, collections at various banks locally and overseas.

2. S. Umakanthan

Deputy General Manager - Credit Administration

Umakanthan is a versatile and pragmatic banker, counts over 35 years of experience in the banking industry at operational and tactical management to strategic/corporate managerial levels. He served at HNB for 15 years prior to joining Pan Asia Bank in 1998. He holds an MSc in Management from the University of Sri Jayewardenepura. He is a Fellow of the Institute of Bankers of Sri Lanka and also holds a Postgraduate Diploma in Assets and Liability Management from the Post Graduate Institute of Management of University of Sri Jayewardenepura.

3. Richie Dias

Deputy General Manager - Treasury

Richie joined Pan Asia Bank from Barclays Bank, Dubai where he held the position of Head of Treasury Middle Office. He has also served Seylan Bank PLC as Assistant General Manager - International Financial Services and prior to that Grindlays Bank Limited as FX Dealer. He has 38 years of banking experience and has developed skills among others, in fundamental principles of market, liquidity and operational risk management techniques. He holds a Post Graduate Executive Diploma in Bank Management from the Institute of Bankers of Sri Lanka and an MBA from University of North West, USA. He is a Member of Association of Professional Bankers, Sri Lanka.

4. Lalith Jayakody

Deputy General Manager - Chief Financial Officer

Lalith Jayakody counts for almost four decades experience in managing finance functions in commercial banks including Peoples Bank, Sampath Bank PLC as well as Pan Asia Bank. He was the Finance Officer of Peoples Bank and has also worked as the Senior Deputy General Manager – Finance of Sampath Bank PLC and was also in the Board of Sampath Center Limited, a fully owned subsidiary of Sampath Bank PLC.

He has an excellent knowledge and skills in auditing, strategic planning, asset and liability management, finance and tax operations coupled with strong business acumen. He is a Passed Finalist of the Institute of Chartered Accountants of Sri Lanka and the Institute of Bankers of Sri Lanka. He has undergone extensive Financial Management Studies at National University of Singapore (NUS).

5. Nayantha Fernando

Deputy General Manager - Company Secretary

Nayantha is an Attorney-at-Law with over 28 years of experience. She was appointed as the Bank's Company Secretary in 1998 and is serving the Bank for over two decades.

6. Naleen Edirisinghe

Deputy General Manager - Branch Credit

Naleen counts over 30 years of banking experience in commercial banks including Commercial Bank of Ceylon and National Development Bank. He joined Pan Asia Bank in 2000 and has extensive experience in retail and SME banking including credit, recoveries, project financing and branch operations. He holds an MSc in Management from the University of Sri Jayewardenepura. He is also a Fellow of the Institute of Bankers of Sri Lanka, Fellow of the Certified Professional Managers and a member of the Association of Professional Bankers, Sri Lanka.

7. Nalaka Wijayawardana

Deputy General Manager - Marketing and Personal Banking

Nalaka is a marketing specialist with over 25 years experience in the banking sector in Sri Lanka and Canada. During his banking career, he has specialised in areas such as strategic marketing planning, brand management, corporate image building, credit card marketing and business banking product management. Prior to joining Pan Asia Bank, he held the position of Product Manager for Cash Management Services at Canadian Imperial Bank of Commerce (CIBC) in Toronto. He has also previously worked as a Senior Marketing Officer at Sampath Bank PLC . He is a Fellow of the Chartered Institute of Marketing (FCIM) UK.

8. Lalith J. Fernando

Deputy General Manager - Chief Risk Officer

Lalith J. Fernando counts over 30 years of experience in banking which includes over 16 years in Corporate Management team of Bank of Ceylon. He holds a BSc Degree in Statistics from the University of Peradeniya, an MSc in Management from the University of Sri Jayewardenepura and is a Fellow of the Institute of Bankers (FIB) of Sri Lanka. Further, he has been admitted to the designation of FRM by the Global Association of Risk Professionals, USA in 2012. Prior to joining Pan Asia Bank, he served at Bank of Ceylon as the Deputy General Manager - Chief Risk Officer for a period of more than 3 years. He has been a resource person on credit administration and risk management at the Institute of Bankers of Sri Lanka and the Centre for Banking Studies at Central Bank of Sri Lanka since year 2001.

9. Gerald Wanigaratne

Deputy General Manager - Information Technology

Gerald Wanigaratne has over 30 years of experience in the banking field, commencing his banking career with short stints at Commercial bank of Ceylon and ABN Bank. He joined Seylan Bank PLC where he gained experience in branch operations, credit and audit before moving to information technology where he served for 16 years at senior management positions, finally as the Assistant General Manager - Information Technology prior to joining Pan Asia Bank. He holds an MBA in Information Systems from the University of Wales and is a non practicing Certified Information System Auditor (CISA) and Certified Information System Manager (CISM) awarded by the Information Systems Audit and Control Association, USA.

10. Upali Dharmasiri

Deputy General Manager - Recoveries

Upali counts over 31 years of experience in banking which includes over 14 years at Senior and Corporate Management capacities. He holds an Economics (Special) Degree from the University of Sri Jayewardenepura and successfully completed a Strategic Management Programme at the National University of Singapore (NUS). He is a life member of the Association of Professional Bankers, Sri Lanka. Prior to joining Pan Asia Bank he served Sampath Bank PLC as the Assistant General Manager - Recoveries.

11. Jeremy De Zilva

Assistant General Manager - Internal Audit

Jeremy counts over 28 years of banking experience in both local and foreign banks. His previous work experience includes Hong Kong and Shanghai Banking Corporation, ABN AMRO and National Development Bank. He is a veteran in banking operations and audit and holds an MBA from the University of Southern Queensland Australia, a Post Graduate Executive Diploma in Bank Management and Diploma in Banking from the Institute of Bankers of Sri Lanka. He is a Fellow of the Institute of Certified Professional Managers and also a member of the Institute of Internal Auditors USA, Chartered Institute for Securities & Investment UK, Association of Business Executives UK and Institute of Bankers of Sri Lanka. He is currently the Treasurer/Committee member of the Association of Professional Bankers, Sri Lanka and the President of the Bankers' Chief Internal Auditors forum, Sri Lanka.

12. Varuni Egodage

Assistant General Manager - Legal

Varuni joined the Bank in 1998 and presently is the Assistant General Manager of the Legal Department. She holds LL.B, MBA and LL.M Degrees, all from the University of Colombo and also holds a Post Attorney Diploma in Banking and Insurance Law from the Sri Lanka Law College.

13. Chandrika Ranawaka

Assistant General Manager - Corporate Banking

Chandrika counts over 24 years of banking experience in both local and foreign banks. He has experience in all areas of banking and is specialised in corporate banking with over 13 years experience in credit analysis and managing local as well as multinational global relationships. Prior to joining Pan Asia Bank, he has worked in Hatton National Bank PLC, Union National Bank - UAE, BNP Paribas - UAE and DFCC Bank PLC. He holds an MBA from the University of Southern Queensland Australia and a Post Graduate Diploma in Business and Finance from the Institute of Chartered Accountants of Sri Lanka. He is also an Associate of the Institute of Bankers of Sri Lanka and Sri Lanka Institute of Credit Management.

14. Harsha Kurukulasuriya

Assistant General Manager - Operations and Administration

Harsha is a banker with proven track record of 31 years experience including overseas in branch banking, bank operations, credit evaluation, disbursement & follow-up, process development & re-engineering, customer relationships, efficient management of resources, work ethics and regulatory compliance, operational risk and market risk etc. He joined Pan Asia Bank in 2011 as a Senior Manager - Branch and served the Bank in an exemplary manner. He holds an MBA from the American City University, USA and also an Associate of the Institute of Bankers of Sri Lanka.

15. Shiyan Perera

Assistant General Manager - Branch Credit & Deposit Mobilization

Shiyan joined Pan Asia Bank in 2010 as the Head of Leasing. He counts over 24 years of experience in both banking and leasing including Nations Trust Bank PLC, Mercantile Leasing Ltd and Lanka Orix Leasing Company Ltd. He is specialised in leasing and is an Associate of Association of Professionals, UK.

SENIOR MANAGEMENT

1. **Nimal Ratnayake**
   Chief Manager - Branch Credit

2. **Umaharan Jeganathan**
   Chief Manager - Consumer Credit

3. **Thilani Peiris**
   Chief Manager - Private Banking and Wealth Management

4. **Rangith Rajendran**
   Chief Manager - Credit Risk

5. **Anthony Gnanapragasam**
   Chief Compliance Officer

6. **Yohan Ebell**
   Chief Manager - Central Area

7. **Suranga Fernando**
   Chief Manager - Finance & Planning

8. **Rajitha Silva**
   Senior Manager - Administration & Premises

9. **Prakash Selvarajah**
   Senior Manager - Branch Operations

10. **Thushara Suraweera**
    Senior Manager - Branch

11. **Kapila Peiris**
    Senior Manager - Internal Audit

12. **Anuradha Gamage**
    Senior Manager - Branch

13. **Hiran Perera**
Senior Manager - Colombo North Area

14. **Chrysanthus Peiris**
Senior Manager - Collections & Recoveries

15. **Thushari Malalgoda**
Senior Manager - Human Resource Management

16. **Chamath Atukorale**
Senior Manager - Treasury Middle Office

17. **Renuka Kurukulasuriya**
Senior Manager - Corporate Banking

18. **Renuka Premkumar**
Senior Manager - Bazaar Area

19. **Lourdette Wijeyanathan**
Senior Manager - Corporate Banking

20. **Aravinda Rodrigo**
Senior Manager - Corporate Banking

21. **Sanjaya Weerasekera**
Senior Manager - Credit Risk

22. **Harsha Samaranayake**
Senior Manager - Colombo Central Area

23. **Anushka Wimalasena**
Senior Manager - Colombo South Area

24. **Sudhila Perera**
Senior Manager - Colombo Outer Area

SENIOR MANAGEMENT

25. **Panchalingam Shankar**
Senior Manager - Northern Area

26. **Thilini Ramanayake**
Senior Manager - IT Service Delivery and Projects

27. **Premanathan Prathaban**
Senior Manager - Eastern Area

28. **Indika Liyanage**
Senior Manager - Trade Services

29. **Kithsiri Weerakoon**
Senior Manager - North Western Area

30. **Anuradha Ranaweera**
Senior Manager - Southern Area

31. **Malintha Liyanage**
Senior Manager - Cards

32. **Primal Vithana**
Senior Manager - Branch

33. **Jagath Athukorala**
Senior Manager - IT Infrastructure

BLOSSOMING WITH POTENTIAL

03
Management Discussion and Analysis

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MACRO ECONOMIC REVIEW

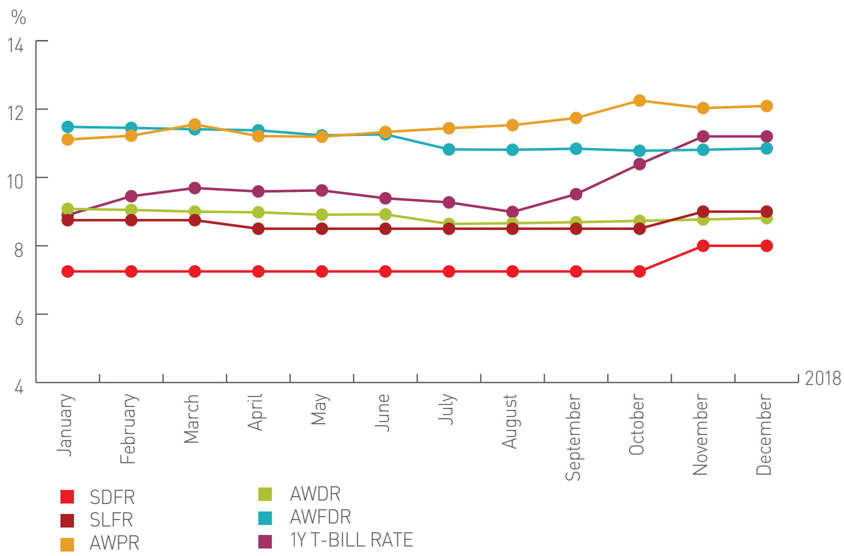
During 2018, Sri Lanka's GDP grew at around 4% in the second consecutive year of weak growth, albeit showing some recovery after a two-year spurt in credit stoked by consumption which became unsustainable and had to be reined by tight policies. The Central Bank of Sri Lanka (CBSL) pursued a tight monetary policy stance during the year. As a result, macro-economic fundamentals showed signs of some improvement in response to the policy package instituted by the CBSL in prudent monetary policy setting and by the government by maintaining its commitment towards fiscal consolidation.

According to rating agency Fitch Ratings Lanka, inflation was maintained at mid-single digit level or price stability by way of taming unwarranted growth in credit. The inflation measured by the Colombo Consumer Price Index (CCPI) rose by 2.8% during the 12 months to December 2018, easing from 3.3% in November. Meanwhile the so-called core prices, which measure inflation barring the mostly volatile items such as food and energy, rose by 3.1% in December, easing from 3.4% in November of the year.

The Central Bank of Sri Lanka hiked its main policy interest rates earlier in December 2018, raising the deposit rate by 75 bps and the lending rate by 50 bps while reducing the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks twice by an aggregate of 250 bps to 5% which appears to be a move directed at addressing the persistent liquidity deficit in the money market.

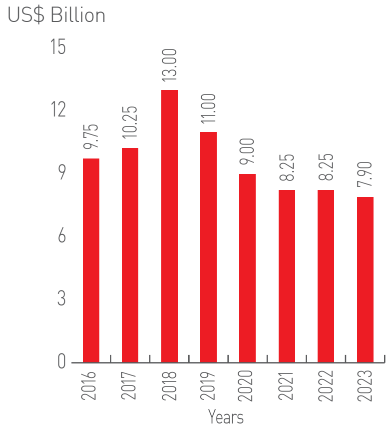
Increase in foreign debt held back the economy from reaching its full potential. An estimated US$ 17 billion of foreign debt is waiting for retirement during the next 5 years from 2019 to 2023 and most, if not all of such debt will have to be rolled over potentially at higher cost, given the rising yields in the international capital markets and the higher risk premium the Sri Lankan sovereign has to pay in the aftermath of the fallout from its credit rating. Under Fitch's baseline assumptions, overall government debt-GDP to decline marginally in 2019 and 2020, but will remain above 80%, which is far higher than the peer median.

Behaviour of policy rates & other market interest rates



Source: Central Bank of Sri Lanka

High frequency of large debt repayments



Source: Moody's Investors Services

Previous revenue reforms such as the VAT rate hike in 2015 and a new Inland Revenue Act effective from 1st April 2018 partly support continued primary surpluses, and hence, declining debt ratios. Nevertheless, downside risks to these assumptions exist, possibly arising from either a reversal of tax reforms and/or a shift towards more populist policies. Fitch downgraded Sri Lanka's sovereign rating to 'B' in December 2018 amid the constitutional crisis.

Impact on Banking Sector

The complicated economic factors at play in the larger economy had a direct impact on the country's banking and financial sector. A moderation in demand was seen for new loans. Although Sri Lanka's banks extended loans of Rs. 1.3 trillion in total with a year-on-year growth of 19.6% by the end of December 2018, showing a slight acceleration from the 16.1% growth recorded in 2017, private sector credit moderated in response to the tight policies which weakened the people's disposable income and the debt serviceability of both individuals and corporates alike. Major corporates scaled back or deferred their growth projects due to higher cost of capital and relatively weak consumer sentiments. Bank loans also moderated due to the banks' internal controls on credit which were strengthened further to contain the damage from depleting quality of assets.

Further, the tight credit stance gave rise to rising Non-Performing Loans (NPLs), which was the biggest challenge the banking sector had to contend with during 2018 - as both individual customers, small and medium enterprises and even some large corporates struggled to service their loans. According to latest data from CBSL, the banks' NPLs rose by Rs. 102 billion during 2018 with the gross NPL ratio of 3.4% after peaking to 3.6% in September. Meanwhile, re-scheduled loans saw a substantial increase to Rs. 185 billion from Rs. 104 billion in 2017.

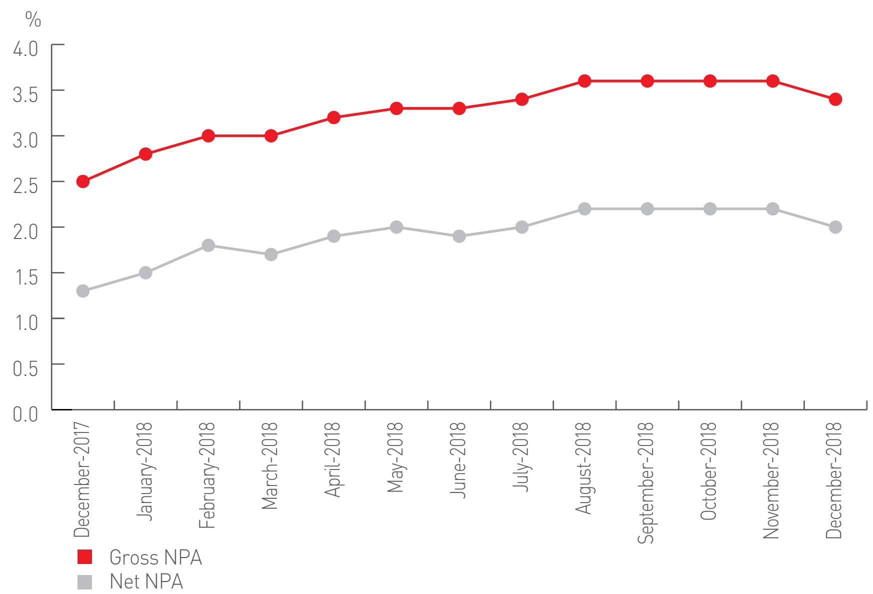
Moody's Investors Service has noted that Sri Lanka's corporate debt serviceability weakened during the year and that around 40% of corporates are expected to have debt interest coverage ratios of less than 2 under a stressed scenario. In addition, a sluggish consumer demand weakened corporate earnings.

The higher taxes, particularly the indirect tax, stemmed from the value added tax increase in late 2016 and the higher direct taxes eroded the disposable income of the masses had a knock on impact of the consumer demand. The situation was further exacerbated by the steeper weakening of rupee in 2018 which fell by 19% in value against the US dollar. The weaker rupee sent the prices of the imported goods and services higher, shrinking disposable income further.

The biggest impact these restraining monetary and fiscal policies had on the economy was the consumer demand being weakened as a result of the erosion in the disposable income. This had a knock on impact on the corporate sector performance as seen from the earnings of the listed corporates in the recent few quarters. Earnings of listed firms in the Colombo Stock Exchange dropped 10% year on year to Rs. 543 billion during Q32018 from the same three months in 2017 weighed down by major segments with the exception to the Banking, Finance and Insurance sector.

Overall, there was a negative outlook on the banking sector due to challenging operating conditions by rating agencies such as Fitch, based on the expectations that operating conditions are likely to remain difficult. In their view, the challenging domestic and external conditions are likely to affect banks' performance through 2019, mainly on asset quality. Credit risks are likely to linger in 2019, as reflected in a rise in rescheduled loans across banks alongside a surge in NPLs in 2018. Capital-raising could continue in 2019 among banks that plan to or need to strengthen capital buffers, but banks could face execution risks in light of the macro instability.

Month on Month NPA Movement - Banking Sector



Source : Central Bank of Sri Lanka

FINANCIAL REVIEW

Year 2018 offered a mix bag of financial performance for the Bank, which included sluggish improvements in the bottom line of the Bank majorly due to the growth constraints in the assets amidst the deteriorating asset quality, pressure on capital adequacy and overall tight policies in the economy which hindered much of the potential growth.

We reported a profit after tax of Rs. 1.54 billion and Earnings per Share (EPS) of Rs. 3.48 a share in 2018 compared with Rs. 1.39 billion and EPS of Rs. 3.31 for 2017. We grew our loans and deposits, albeit moderately due to reasons explained elsewhere in this report and will further elaborate here.

Despite the multifaceted headwinds, our financial achievements during 2018 continued to demonstrate the benefit of our strong retail business placed within our diversified business model and our ability to perform well in a challenging industry landscape.

Noteworthy financial performance items for 2018 are listed below compared with the 2017 figures;

- Total Revenue which includes interest income and non-interest income of Rs. 21.67 billion, up Rs. 3.99 billion or 22.55%
- Net Interest income of Rs. 6.52 billion, up Rs. 1.81 billion or 38.50%
- Strong net interest margin of 4.37%, up by over 75 basis points from 3.61%
- Total Operating Income was up by a robust 33.66% to Rs. 8.93 billion from Rs. 6.68 billion
- Total Loans and Advances of Rs. 113.49 billion, up 12.42%
- Deposit growth, with total deposits of Rs. 118.63 billion, up Rs. 11.43 billion or 10.67%
- Total Assets of Rs. 154.03 billion, up Rs. 15.53 billion or 11.21%

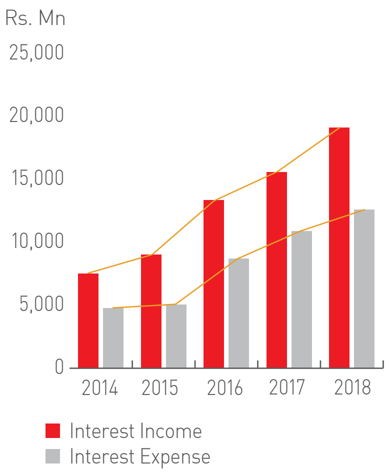
Net Interest Income

Net interest income is the interest earned on loans & advances and other interest- earning assets minus the interest payable on deposits and borrowings.

Our net interest income increased by 38.50% to Rs. 6.52 billion as a result of the 22.68% increase in the interest income to Rs. 19.16 billion and the 15.85% increase in interest expenses to Rs. 12.64 billion. The growth is largely supported by timely re-pricing of asset and liability portfolios, moderate growth in loan book, recovery of some hardcore non- performing advances and also relief on reduction of statutory reserve requirement in mid November 2018.

Due to the aforesaid reasons, our net interest margin improved by over 75 basis points to 4.37% from 3.61% in 2017.

Interest Income Vs Interest Expense

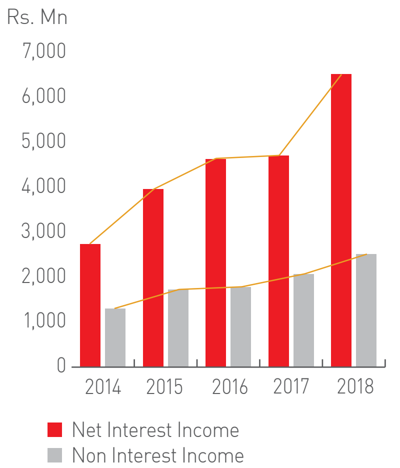


Non-interest income

Non-interest income increased by Rs. 446.40 million or by 21.58% in 2018 providing much needed buffer to the top-line.

Net fee and commission which are largely linked to volumes consists of 64.67% of the Bank's total non-interest income in 2018. Among the fee income, the card related income improved markedly by 33.56% to Rs. 448.18 million primarily driven by the expansion of credit card volumes and transaction fees. Meanwhile the trade related income also increased by 19.58% to Rs. 335.58 million while the loan related fee income, being the largest, increased by 19.72% to Rs. 625.59 million.

Net Interest Income Vs Non Interest Income



Other operating income mainly consisting of foreign exchange revaluation gains recorded the highest growth of 53.72% to Rs. 412.22 million in 2018. Net trading income increased by 21.73% to Rs. 476.43 million out of which Rs. 282.94 million came from the gains from the forward foreign exchange agreements. The gains from units decreased by 10.13% to Rs. 194.96 million as the Bank curtailed unit trust investments since the 1st quarter due to abolishment of income tax reliefs thereafter.

Credit Quality

Credit quality, the most significant performance measure in 2018 deteriorated in 2018 in line with the industry, while the credit costs had a steeper increase due to the first time impact of the adoption of SLFRS 9 on Financial Instruments.

Credit quality is measured though regulatory non-performing advances ratios. Our gross non-performing loans ratio rose to 5.44% in 2018 in tandem with deterioration in credit quality seen across the industry. The industry gross non performing loans and advances ratio increased to 3.40%

in December 2018 after an increase of 90 basis points in preceeding 12 months.

However, due to prudential provisioning, the net non performing advances ratio remained at a low of 3.08%, as opposed to the industry ratio which deteriorated by over 70 basis points in preceeding 12 months.

The Bank's ability to contain the full impact from the fallout in the industry wide asset quality also comes from the proactive measures adopted by the Bank from the beginning of the year to tighten the credit policies, robust underwriting standards and rigorous recovery.

While recoveries and collection ploughed ahead with full steam, we could fully address some of the legacy non-performing loans which had been weighing heavily on the Bank's profitability, asset quality and capital. However our team attained much success in addressing much of the fallout in asset quality stemming from consumer, retail and SME portfolios.

Impairment charges on loans and advances

Meanwhile, one of the most notable increases was seen under credit loss expenses. Credit loss expenses increased by more than three times to Rs. 2.02 billion in 2018 partly due to the shift in provisioning models from 'Incurred Credit Loss Model' to 'Expected Credit Loss Model' as prescribed in SLFRS 9 - Financial Instruments.

The largest impact came from the individual impairment which rose to Rs. 1.30 billion in 2018 from Rs. 337.26 million in 2017. The sharp increase in the individual impairments stemmed from some sizeable corporate loans moving to non-performing category which is now being addressed as a matter of priority.

Meanwhile the impact of SLFRS 9 was clearly seen in the collective impairment charge which increased to Rs. 719.85 million in 2018 from Rs. 160.17 million in 2017. Collective impairment charge of year 2017 was made in accordance with incurred credit loss principles of LKAS 39. The Bank used 'Modified Retrospective Method' in preparation of Financial Statements for 2018 as SLFRS 9 allows an entity to re-state prior periods if and only if restatement is possible without the use of hindsight. Under this method comparative figures are not re-stated instead, the standard requires disclosure on adopting SLFRS9 on the Statement of Financial Position and the Retained Earnings showing re-stated opening balance as at the transition date.

The expected loss model requires considerable judgements over how changes in economic factors affect the expected loss from the loan portfolio, which in turn is determined on a probability weighted basis. The Bank's total impairment provisions increased by Rs. 1.36 billion or by 61.75% as result of adopting SLFRS 9 as at the date of the transition. However, the regulator has allowed the banks to charge the day 1 impact of SLFRS 9 on the capital through a phased approach spanning over 4 years in order to mitigate the impact it has on the capital adequacy ratio.

Operational efficiency

We maintained our operational efficiency significantly in 2018 due to the strong growth in total operating income despite the increase in overhead costs. Our cost-to-income ratio improved remarkably to 48.88% in 2018 from 56.51% in 2017 as a result of the strong growth in total operating income.

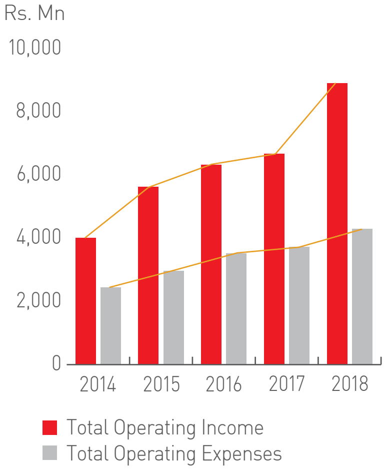
The Bank's personnel expenses increased by 14.72% in 2018 due to bonuses, annual salary increments, allowances and other incentives. Infact this increase would have been significantly lower, had the Bank paid bonuses in line with the 2017 payout. These staff related expenses also consist of substantial investments made on training and development and succession planning to ensure a robust talent pipeline in almost every area of the organisation. Hence this investment in our people will yield results through several reporting periods despite it was charged to a single accounting period.

Meanwhile, the sharp increase in our other expenses by 16.01% was predominantly driven by business development expenses which rose by as high as 32.02%. In sum our total operating expenses rose by 15.45% to Rs. 4.31 billion in 2018.

We must also emphasis here that operational efficiency naturally comes with increase in scale in any industry. Expanding the scale slowed down in 2018 due to reasons explained above and our potential for further efficiency stands at a much higher level than what is reported here.

Meanwhile our return on assets, another key efficiency ratio declined marginally to 1.03% in 2018 from 1.07% in 2017.

Total Operating Income Vs Total Operating Expenses



FINANCIAL REVIEW

Earnings Performance

We reported a profit for the year of Rs. 1.54 billion, with an earnings per share of Rs. 3.48, compared with Rs. 1.39 billion and earnings per share of Rs. 3.31 for 2017.

Our financial performance benefited from the 38.50% increase in the net interest income and 21.58% increase in the non-interest income. The net interest income for the year was Rs. 6.52 billion and the non-interest income was Rs. 2.52 billion. As a result our total operating income recorded a growth of a solid 33.66% in 2018 to Rs. 8.93 billion.

However, the sharp 308% increase in credit loss expenses resulted in a net operating income of Rs. 6.91 billion, up by 11.73%. The reasons for this sharp increase in the provisions were explained in detail here under credit quality.

Our earnings performance for year 2018 is also impacted from the debt repayment levy which came in to effect from 1st October 2018. Although this levy had a limited impact in 2018, the full impact is estimated to be much higher in the ensuing years. The levy is applied on the total value addition of financial services before value added tax and nation building tax on financial services.

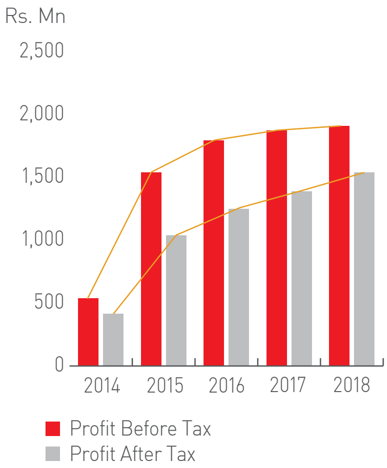
As a result of this new levy and increase in personnel expenses, total taxes and levies on financial services increased by 19.87% to Rs. 691 million in 2018. As a result our profit before tax increased marginally by 1.82% to Rs. 1.91 billion in 2018.

The Bank's effective income tax rate with deferred tax and prior year adjustments stood at 19.27% of the Bank's profit before taxes, whereas the total effective tax rate including taxes & levies on financial services and deferred taxation stood at 40.72% of bank's operating profits for the year. This is amidst the impact of the Debt repayment Levy which came into effect on 1st October 2018.

The Bank's effective income tax rate and total effective tax rate for the year 2017 stood at 25.86% and 43.29% respectively.

The Bank's bottom-line, profit after tax increased by 10.87% to Rs. 1.54 billion in 2018.

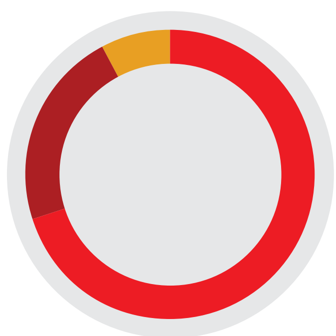
Pre-Tax & Post-Tax Profit



Balance sheet, Funding and Liquidity

Our balance sheet grew by 11.21% in 2018 to Rs. 154.03 billion, quite moderate on one hand but equally robust on the other hand when considering the capital and liquidity constraints and the higher market interest rates which stemmed the overall sector growth.

Composition of Total Assets



Loans and Advances	70.23%
Other Income Earning Assets	22.12%
Non Income Earning Assets	7.65%

Tight policy characterised by higher interest rates and taxes not just enfeebled the already slow moving economy but took toll on the banking sector growth, particularly on those with less than Rs. 200 billion assets. According to the Central Bank of Sri Lanka, the banking sector loan growth came in the lowest of the banks with assets less than Rs. 200 billion although overall growth remained robust.

Our loans and advances grew at a sub-optimal level of Rs. 12.54 billion or 12.42% during the year. The growth in our retail and consumer loans was more than off-set the declines in our corporate loans and the modest growth in the SME portfolio.

Our total deposit base is increased by Rs. 11.43 billion or 10.67% from 2018. This increase again reflected the growth in our retail book consisting mainly of the small ticket size contracts as the Bank significantly reduced the dependency on larger deposits which have been weighing on the margin.

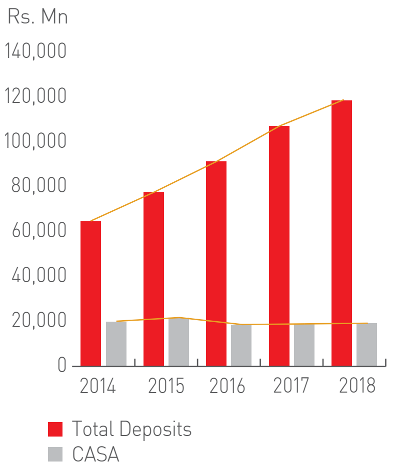
However, our average financial cost of funds increased due to the heightened competition for deposits among the banks, especially from 2H'18 pushing the deposit rates higher.

A deeper look at our deposit profile will also demonstrate some shortening in the maturity profile by the end of 2018 due to some concentration seen in shorter tenor deposits which was seen across the industry. Although our two year 'Rising FD' negated the impact for a certain degree, it could not fully offset the much faster increase in our shorter tenor deposits.

On the other hand, our low cost deposit profile narrowed further in 2018 due to increased focus on the time deposits. This is an industry-wide phenomenon due to deposit holders shifting to higher yielding shorter tenor term deposits, however the banks (including us) navigated successfully without the margins becoming a casualty. The industry CASA ratio deteriorated by over 200 bps during the last 12 months.

Our CASA ratio fell to 16.25% in 2018 from 17.70% in 2017, however our net interest margin rose to 4.37% from 3.61% a year ago due to timely reprising of assets and liabilities.

Total Deposits Vs CASA



The Bank's dues to debt securities holders increased by 57.05% in 2018 due to new borrowings from local and foreign markets as the Bank does not depend on the deposits as the only source to fund loans and advances.

The Bank also received the final tranche of the foreign funding line entered in to with Micro, Small & Medium Enterprises Bonds S.A (MSME) of Luxembourg in 2018. This receipt of the final tranche in July 2018 successfully brought to a conclusion of the US $ 22.75 million funding arrangement initially entered in to with financier back in 2016 which aimed directing funds at MSME clientele of the Bank.

Shareholders' Funds

The growth in the Bank's shareholder funds in 2018 is limited to 5.41% due to the impact of SLFRS 9. The Bank's growth in shareholder funds during 2018 was solely driven by internally generated capital.

The Bank ended the year with a Common Equity Tier I (CET I) Capital before adjustments Rs. 11.34 billion, and a Total Capital of Rs. 12.77 billion. Our CET 1 Capital ratio and Tier 1 Capital ratio stood at 11.51% against the statutory minimums of 6.375% and 7.875% respectively. Our Total Capital ratio stood at 13.32%, above the regulatory minimum of 11.875% required to be maintained by 31st December 2018.

The Bank's Return on Equity (ROE) declined to 13.73% in 2018 from 14.86% in 2017 mainly due to higher taxes and credit losses. However, the inevitable decline in the Return-on-Equity is a cause for concern in retaining the investor appetite on the banking sector. Therefore, we continuously explore the methods of improving the quality of loan book, accelerate recovery efforts and implement effective tax planning strategies to minimise pressure on our bottom-line.

We have dwelled on this issue, under the future outlook section of this report, as decline in ROE will have a significant impact on the banking sector at some point when regulatory capital requirement is consistently on the rise.

FUTURE OUTLOOK

Future banking sector outlook hinges predominantly on how the sector could navigate through the current and future headwinds facing the industry from the fallout in the asset quality, moderation in growth over slowdown in economic growth and higher rates, muted earnings, need for higher capital and the heightened competition and adoption of financial technology (often referred to as 'fintech').

Given these challenges, we have the following forecast for the industry at a broader level;

Challenging operating conditions

We expect the operating conditions for the Sri Lankan banking sector to remain challenging during 2019 due to continued dampening of the economic activities and the prolonged higher interest rates.

The economy is projected to have grown by below 4% in 2018 is not expected to pick up significantly during 2019 either given the challenges it is facing in foreign debt refinancing. This could create liquidity constraints in the domestic market and could put upward pressure on domestic interest rates.

This trio; the lackluster economic growth, higher interests rates and liquidity constraints will continue to pressure the industry.

Standard & Poor's (S & P) recently said that the resilience in the Sri Lankan banking sector has weakened due to the country's low income levels, with an estimated per-capital gross domestic product of about US $ 4,050.

There have been further imbalances in the economy in recent months due to a deterioration in the sovereign's external position.

All three global rating agencies; Moody's, S & P and Fitch Ratings downgraded Sri Lanka's sovereign ratings during the final quarter stoking fresh risks in debt refinancing and fiscal consolidation due to the political crisis.

"In a low-probability and high-impact downside scenario, if the political turmoil escalates or prolongs, uncertainty could spread to the banking sector and cause funding stress or liquidity outflows", S&P opined.

Modest loan growth

Sri Lanka's banking sector loan growth could moderate in 2019 due to reduction in consumption demand, higher interest rates, rigorous internal controls in view of higher non-performing loans and liquidity constraints.

Banking sector loans grew by 19.6% or Rs. 1.3 trillion in 2018 from 16% in 2017 and 18% in 2016 (21% in 2015) as tighter monetary policy curbed excessive credit growth.

Our expectation is that the industry credit growth to settle around 15% in 2019 considering the impact from the SLFRS 9 on Financial Instruments which forces the lenders to focus on high quality lending and the greater likelihood of interest rates remains at higher levels.

Impairment charges under SLFRS 9 is markedly higher than its predecessor LKAS 39 on Financial Instruments due to its Expected Loss Model (ECL) which requires considerable judgement over how changes in economic factors affect ECL, which in turn is to be determined on a probability weighted basis.

S&P in its latest report on the Sri Lankan banking sector opined the sector's credit risk is high, given relaxed lending and underwriting standards. The credit risk in Sri Lankan banks are accentuated by high growth in credit in the past and a recent slowdown in GDP growth.

Weak Asset Quality

We expect the weak asset quality to remain during 2019 as the banks scramble to address the gaps in their credit quality and enhance recovery.

Non-performing loans in the banking industry grew by Rs. 102 billion in 2018 and the gross non-performing loans ratio rose by 90 basis points during the year to 3.4% after peaking to 3.6% in September 2018.

Restructuring and write-offs appear to have improved the reported NPL ratio during the period although the actual NPL ratio could have been much higher.

Profitability pressure

We expect the pressure on profitability to persist through 2019 due to the increased credit costs, weaker asset quality and the full year impact coming from the new debt repayment levy.

Sri Lanka's banking sector Return on Equity has notably come down to 13.2% in 2018 from 17.6% an year ago as the profits weakened and shareholder capital increased due to gradual increase in the capital by the banks to be in line with the higher capital adequacy ratio under Basel III.

According to the CBSL reported profits, the banking sectors after tax profits have come down to Rs. 126 billion in 2018 from Rs. 138 billion in 2017. Once the impact of SLFRS 9 Provisioning also taken in to account this decline would be much higher.

Low RoE could hurt investor appetite on banking sector

Given the declining shareholder return from the banking sector (which is demonstrated by the declining RoE), we like to think that it would be an uphill task for the banks to remain attractive towards both existing and potential investors.

This is because there will be an increase pressure on banks to retain large chunk of their earnings than to distribute among their stock holders due to the regulatory requirement to constantly upgrade their capital in line with their loan book growth.

The CBSL has already issued a directive for the licensed commercial banks to upgrade their minimum core-capital from the current Rs. 10 billion to Rs. 20 billion by the end of 2020.

While some banks already meet this requirement, few others could accomplish this threshold with their internal capital generation, partly by cutting in to the dividend pay-out.

In any case, ever increasing regulatory capital requirements will force the banks to make capital calls from their shareholders in order to remain in business but the question remains how low the RoE should fall before the stockowners start saying, "enough is enough".

Meanwhile the reported RoE is expected to further deplete from the current levels under the SLFRS 9 reported profits due to its inherent nature of higher provisions against possible bad loans.

Stable funding

We expect Sri Lankan banks to largely use deposits to meet their funding needs, despite a recent weakening in the banking industry's funding profile. In 2018, total deposits of the industry increased by 14.8% or Rs. 1.1 trillion.

The CASA base continued to decline to 34% in 2017 from 36% in 2016 as term deposits increased due to higher interest rates.

Meanwhile according to S&P the share of external funding will rise as banks tap external funding to on-lend to the government to meet its repayment requirements. As the political situation in Sri Lanka stabilises, banks are likely to seek more external funding because local deposits may prove insufficient to meet their growth needs.

Unattractive debt security market & external borrowings to diversify funding mix

In contrast to S&P's view, we also like to think that the banks will have lesser appetite to tap the domestic corporate bond market and the international capital market due to several reasons.

We would like to remind our stakeholders that there was a bout of large number of corporate debenture issuances after since 2013 when the then government exempted the interest earned by those investors.

The tax exemptions were granted as part of the capital market development strategy. But with the enactment of the New Inland Revenue Act from 1st April 2018, interest from such debentures were restored which weighed against on future issuances of bonds as investor appetite waned.

As the debentures that were issued since 2013 are now retiring and the banks are less likely to refinance those debts through similar debenture issues, there is limited scope for the banks to diversify their funding portfolio.

Similarly the banks' appetite to access foreign funding could also be muted going forward with the income taxes applied on interest paid on such borrowings.

Regulatory pressure for more stable funding

Meanwhile in a fresh development, and also as an important sub-section under the new Basel III liquidity standard, the banks are made subject to regulatory scrutiny more than ever to maintain a stable funding profile.

What this means is that all banks will be gradually required to increase the stable funds in their funding mix to commensurate with the maturity profile of the assets – in other words to strengthen the degree of stability of liabilities and liquidity of assets.

The level of stable funds will be evaluated by a measure called, 'Net Stable Funding Ratio' or NSFR which measures the availability of stable funding relative to the amount of required stable funds.

According to the NSFR Directions No 08 of 2018 dated 21st November 2018, issued by the Central Bank, a LCB is required to maintain a minimum of 90% of NSFR by 1st January 2019 which will rise to 100% by 1st July 2019.

This would put additional pressure on banks to raise more of medium and long term funds which come at a relatively higher cost than short term funds/deposits which in return dent the margins hitherto enjoyed by the sector.

Nevertheless this would force banks to minimise asset and liability maturity mismatches to a greater scale which will ensure the long term stability over short term profitability.

Increased competition from fintech companies

Meanwhile a major challenge for the conventional banking comes from the fintech companies and this is expected to get intense during 2019 with the entrance of new players who are more aggressive, dynamic and already operate with a ready-made customer base.

As these companies need less capital for expansion and increase reach, their RoE will be higher than the traditional banks which is a big advantage for the fintech firms.

Further their cost of reaching a customer and serving them is much less leading to less cost structure overall, hence giving a clear edge over a traditional bank.

Strengthened capital profile

The Central Bank of Sri Lanka is taking several measures that we believe will help strengthen capital positions of banks and non-banks in the next few years. The measures would benefit the banking system in the longer term by providing good capital buffers to absorb unexpected losses.

Nevertheless, most banks will have to step up capital (including hybrid) issuances this year, S&P opined.

BUSINESS REVIEW

Moderate performance amid severe headwinds

The Bank's overall business and financial performance during the year has been a moderate one as the Bank had to endure challenges continuing from the previous year including limitations resulted by capital constraints. This situation was further aggravated by the macro economic factors which turned increasingly challenging in 2018 impacting the entire banking industry.

As stated in our last year's annual report as well as in our interim reports published throughout the year, our topmost priority in 2018 was securing the capital, specifically tier II capital to maintain the projected growth rate.

However the much needed capital infusion, was delayed due to factors mostly beyond the control of the Bank, which in turn, compelled the Bank to apply brakes on the growth, limiting its ability to exploit available market opportunities.

Notwithstanding the delay, the management is currently in advance talks with a foreign party to arrange the required capital funds which upon arrival will enable the Bank to commence its drive towards a high growth trajectory.

Meanwhile the Bank adopted a cautious approach in new lending in a conscious effort to contain new additions in to non-performing loans which it managed relatively well as opposed to some of the competitors.

The higher rates which prevailed throughout the year and other macro-prudential measures such as Loan-To-Value (LTV) ratios on lending imposed by the Monetary Board had a substantial bearing on the growth in new loans in addition to the weaker business and consumer sentiments that prevailed during 2018.

Nevertheless on a positive note, this moderation in growth gave a much required opportunity for the Bank to pursue its reform agenda and to lay a stronger foundation for the medium to long term which is uncovered in detail later in this section.

Meanwhile, despite the challenging circumstances, the Bank was able to record noteworthy performance in 2018, particularly on the financial front due to the timely execution of under mentioned strategies;

- Proactive asset and liability re-pricing

  The Bank started re-pricing its asset and liability products from early on in the year in response to the monetary tightening measures that had already been taken as well as anticipating further tightening that could follow. This approach placed the Bank at an advantage compared to the competition enabling it to yield an early harvest.

- Continuous monitoring of rates and recalibrating asset mix

  The Bank continuously and objectively re-calibrated its asset portfolio to ensure its assets earn the highest possible yield. This helped the Bank to maintain its interest margins when the cost of funds was on the rise.

- Closer tab on overheads and driving efficiency

While striving to grow the top-line, the Bank simultaneously was exploring measures to narrow the cost base through prudent cost management, process automation and streamlining its structure to improve the bottom-line.

The Bank's investments in a state of the art fully-fledged core-banking system during 2015 commenced paying dividends in terms of faster turnaround times resulting in not just lower costs but also higher customer satisfaction.

Banking business continued shifting more toward retail

Tilt toward Retail & MSME

In the context of rising market interest rates, the Bank continued its increasing focus on Retail and Micro, Small and Medium Enterprises (MSME) segments through most part of 2018 which offer higher yields over Corporate Banking.

The Bank identified that there is a shift taking place from a volume driven growth to a margin driven one in a rapidly increasing interest rate environment in order to keep our earnings per share and the return on equity ticking.

Despite tightly managing its appetite to grow Corporate Banking business, the Bank took measures to strengthen its existing long term relationships and forging new ones, particularly the ones with trade facilities and other incomes.

The performance of each of these business segments is unravelled below.

Retail segment

The retail segment which accounts for 41.80% of the Bank's total gross loans and advances in 2018, led the growth of the Bank's total assets, living up to its reputation of being truly a consumer bank.

This was amply evident from the portfolio growth experienced in areas of Credit Cards, Personal Loans, Housing Loans and Sammana – the Bank's flagship specialised loan product for government pensioners which continued to be popular - albeit at a slower pace in comparison to the previous year due to reasons outlined above.

The growth in leasing business decelerated substantially, particularly due to the tighter financing and vehicle market related regulations introduced by the government with a view to curb vehicle imports.

However, the slowdown in some of the products that are highly sensitive to economic cycles was compensated by the Bank's innovative product portfolio, branch support, sales force support and effective marketing and communication campaigns carried out.

One such case was the above industry average growth recorded by Pan Asia Bank's Credit Card portfolio which grew by over 77% (CAGR) during the last 5 years.

Strong MSME thrust

One main noteworthy aspect of the Bank's performance in 2018 was its conscious efforts towards supporting the Micro, Small and Medium Enterprises (MSMEs) which functions as the lifeblood of our economy.

Despite the country having many banking players, the Bank continued to see a significant untapped potential in MSMEs and strived to reach out to them to help them achieve their full potential. For this purpose the Bank continued to strengthen its regional presence and deployed more resources to support these segments.

One such noteworthy micro financing project was completed in Ipalogama in Anuradhapura where Pan Asia Bank ventured out to empower farmers by financing Drip Irrigation systems for their cultivations.

Ipalogama is a village that has been increasingly moving towards commercially viable Guava cultivations utilising better farming techniques. In this backdrop, Pan Asia Bank identified the need to assist its enterprising farmers when the Bank's Development Banking Division officials visited the area to provide small scale entrepreneurs with financial assistance to expand their businesses. As a result, the Bank went beyond offering lower cost financing, as they realised that in order to reap the full benefits of their efforts; farmers of Ipalogama had to be introduced to better agricultural technologies.

Hence, the Bank decided to help them increase their harvest and substantially reduce cultivation costs by joining hands with the Global Climate Partnership Fund (GCPF), which is an investment fund dedicated to energy conservation and sustainable environment management. With this collaboration, the Bank began educating farmers on better irrigation techniques and help them set-up drip irrigation systems on their plantations. Further, technical workshops including a field visit, sponsored by Bartleet Agrotronics, also was arranged for farmers enabling them to benefit from the specialised knowledge and expertise of Drip Irrigation systems in India.

Accordingly, the first stage of this innovative Drip Irrigation System project was launched in Ipalogama on 21st September 2018.

As a result of these conscious efforts, the Bank was able to re-balance its portfolio appropriately between the developed and less developed regions and grow the Retail and MSME portfolio by 17.39% or Rs. 78.80 billion to Rs. 92.50 billion.

Corporate Banking

Due to the aforementioned macro-economic conditions, pressure on liquidity, limited capital and the shift in focus to maintain margins, Corporate Banking had to bear the brunt by way of freeing up the funds for Retail & MSME advances which fetch relatively higher margins.

Further, the Bank revised the rates of the corporate facilities in line with the prime lending rates which enabled the Bank to maintain its overall margins at a healthy level.

The year saw the corporate lending declining by 8.60% to Rs. 17.86 billion while the deposits also increased by 16.11% to Rs. 10.16 billion.

However new relationships were built up with a strong focus on building fee-based incomes, mainly through trade lines in a bid to off-set the lower margins in the segment.

The Bank also adopted a seamless approach to relationship management where the customer relationship management team is joined by representatives of the Treasury, Trade and the Cash Management divisions, enabling the Bank to offer customised end-to-end solutions.

Trade finance drive

The Bank in 2018 took conscious efforts to improve Trade Finance business by way of diversifying the client portfolio and thereby the trade industries in a bid to increase sustainable trade income.

Although through these efforts the Bank made progress, the slowdown in trade activities including the particularly sharp fall in vehicle imports in 2018 had a significant bearing on trade income.

Reducing the excessive reliance in vehicle import related Letter of Credit income was a key objective of the Trade Finance team in 2018 for which purpose the team was strengthened by bringing in new expertise from the industry. As a result, the Bank forged many new relationships with a diverse set of importers during the year under a concerted effort to target highly potential regions in the country.

The income from trade finance business in 2018 rose by 38.56% to Rs. 903.07 million.

BUSINESS REVIEW

Some of the reforms undertaken expecting medium and long term results

Building a stronger, yet retail driven deposit franchise

As the lending focus moderated, the Bank campaigned aggressively to build a stronger deposit franchise mainly from retail customers.

One of the notable tweaks made in the deposit portfolio during 2018 was to reduce the Bank's dependency on a few larger institutional and high-net worth individuals to one consisting more of retail deposit holders.

This recalibration in the deposit profile, though painful in the short term, was a much needed risk mitigation measure.

- Heightened focus on CASA

The focus on building current and savings accounts was taken to new heights in 2018 to arrest the fall in the low cost deposits which has been weighing on the Bank's funding cost.

However, falling CASA ratio (despite the increase in CASA on an absolute basis) has been an industry phenomenon during an era of rising interest rates as the savers tend to prefer fixed deposits expecting higher yield.

The Bank carried out a special campaign for two months through the staff to build CASA where the top performers were rewarded in recognition of their efforts.

Inculcating sales culture across branches

This was one of the key reforms which began in 2017 and continued through 2018 in a bid to enhance the branch contribution to the Bank's top and bottom-lines.

In this way, the Bank attempts to strike a healthy balance between the contribution from the Central Sales Unit and the branch network for the business.

Pre-emptive measures to curb NPLs

In a bid to ensure that the Bank maintains its asset quality without allowing it to deteriorate, the Bank took several measures. Among such initiatives were to enhance the credit standards of Consumer Loan clients and maintain a more cautious approach towards new lending on small and medium enterprises.

These are among a host of measures taken to limit the new additions to non-performing loans after the Bank established a Post Disbursement Unit (PDU) last year for the same purpose.

Meanwhile the Bank further strengthened its PDU this year while strengthening the recovery efforts on both hardcore and new NPLs which has yielded results.

Approval and execution of bank's strategy

The high point of all these reforms was the Bank's 5 - year strategic plan which came in to motion after recording as it received the ratification from the Board.

This 5 - year strategic plan was developed along with the strategies of each of the business units taking a longer term view while remaining nimble and flexible to respond to evolving business dynamics.

New Products-Launch of Rising FD

In 2018, Pan Asia Bank launched its latest innovative product - Rising Fixed Deposit. This is a unique two year Fixed Deposit that allows depositor to benefit from market interest rate increases even during the tenure of the deposit while safeguarding them from any downward trends in market interest rates.

Pan Asia Bank famed for its innovative financial services sector products, designed this fixed deposit which combines the best of both worlds for customers by passing on the benefits arising out of the interest rate volatility in the market.

Rising FD product offers guaranteed minimum interest rate at the time of placing the deposit and this rate may be further upwardly revised every six months depending on the market interest rates. On the other hand, if the market interest rates are found to have decreased during those reviews, the deposit holder will still continue to receive the guaranteed minimum interest rate.

Hence, this unique product ensures that depositors would not lose out on an opportunity to benefit from any market rate increases during the deposit period although their money remains fixed for two years.

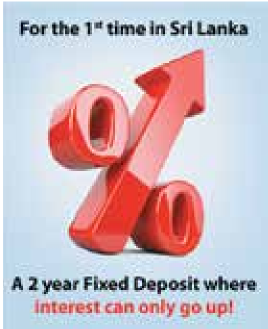
KEY PRODUCT OFFERINGS

Champion Saver

Higher returns with unlimited withdrawals

CHAMPION SAVER Savings Account

- An attractive high interest rate of up to 8% (8.30% AER)
- Freedom to withdraw money any number of times without losing interest
- Ability to access money from any ATM carrying the VISA or Lanka Pay logo



Rising FD

An investment that leaves no room for regret

PAN ASIA RISING FIXED DEPOSIT

- Guarantee a minimum interest rate at the time of placing the deposit with the possibility for it to be further increased every 6 months

Daskam

Bonus deposit for every deposit you make

PAN ASIA 10 DASKAM Children's Savings Account

- Get an additional 10% deposit added on top of every deposit you make
- Attractive interest rate of 8% (8.30% A.E.R) on the total balance

Mithuru MAX

The Children's Savings Account that offers amazing gifts

PAN ASIA MITHURU MAX Children's Savings Account

- Attractive gifts based on the account balance
- Special gifts for year 5 scholarship winners

Investment Plan

The investment plan that lets you save in monthly installments

PAN ASIA TARGET INVESTMENT PLAN

- Make deposits in monthly installments
- Attractive high interest with guaranteed value at maturity

Blue Chip Money Market Savings Account

Higher returns on your company funds

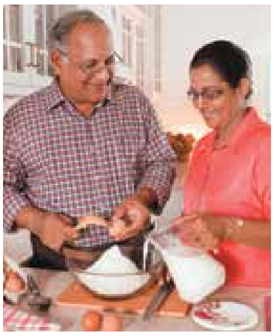
PAN ASIA BLUECHIP MONEY MARKET SAVINGS ACCOUNT

- Ability to link with current accounts via sweep facility
- Higher interest rate

KEY PRODUCT OFFERINGS

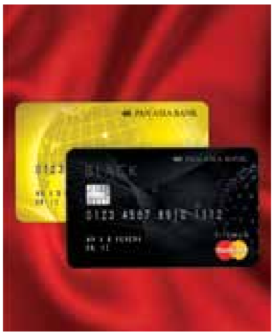
Current Accounts
Experience everyday convenience

- A convenient payment method
- 24 hour access to account through SMS alert and Internet Banking
- Ability to access money from any ATM carrying the VISA or Lanka Pay logo



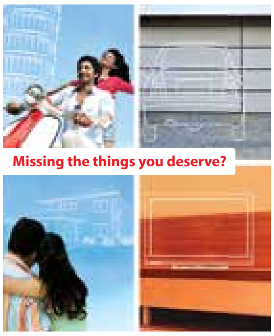
Sammana
A special package of a guarantor free loan and a savings account for retired government & Central Bank Employees

- A higher interest rate for Savings Deposits
- Loan facility of up to Rs.2,000,000/-
- Repayment period up to 10 years
- Ability to repay until 70 years of age
- Ability to obtain an advance against the pension payment



Credit Cards
Amazing savings on your interest charges

- Lowest interest rates
- Free of charge balance transfers at interest rates as low as 16%
- No joining fees or hidden charges



Personal Loans
Get what you deserve, now.

- No guarantors or securities required
- Speedy processing
- Competitive interest rates
- Minimum documentation

Pawning
Highest value for your Gold

- Maximum value
- Assured security for gold
- Convenient access points

'Nivasa' Home Loans
Live like a king under your own roof

- Loans for Rs 5 million to Rs 25 million with a repayment period of up to 25 years
- Available for purposes of renovation, purchase of land, investment or settlement of an existing Housing Loan

Budget Leasing

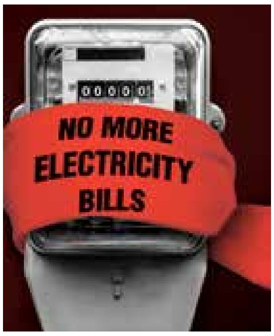
Stretch your affordability

- Lowest lease rentals that enhance customer affordability
- Minimum documentation
- Doorstep service

'Aspire' Education Loans

Unleash the power of knowledge

- Loan facilities from Rs 50,000/- to Rs 7.5 million to cover 100% of the cost
- Flexible loan repayment scheme of up to 7 years
- Loans available for parents, siblings and professionals in employment or in business



Solar Loans

Special loan scheme to purchase domestic solar energy systems

- Competitive interest rates
- Fast and courteous service
- Repayment periods of up to 7 years

SME Credit Facilities

Help your business thrive

- Competitive interest rates
- Fast and courteous service
- Repayment periods of up to 5 years

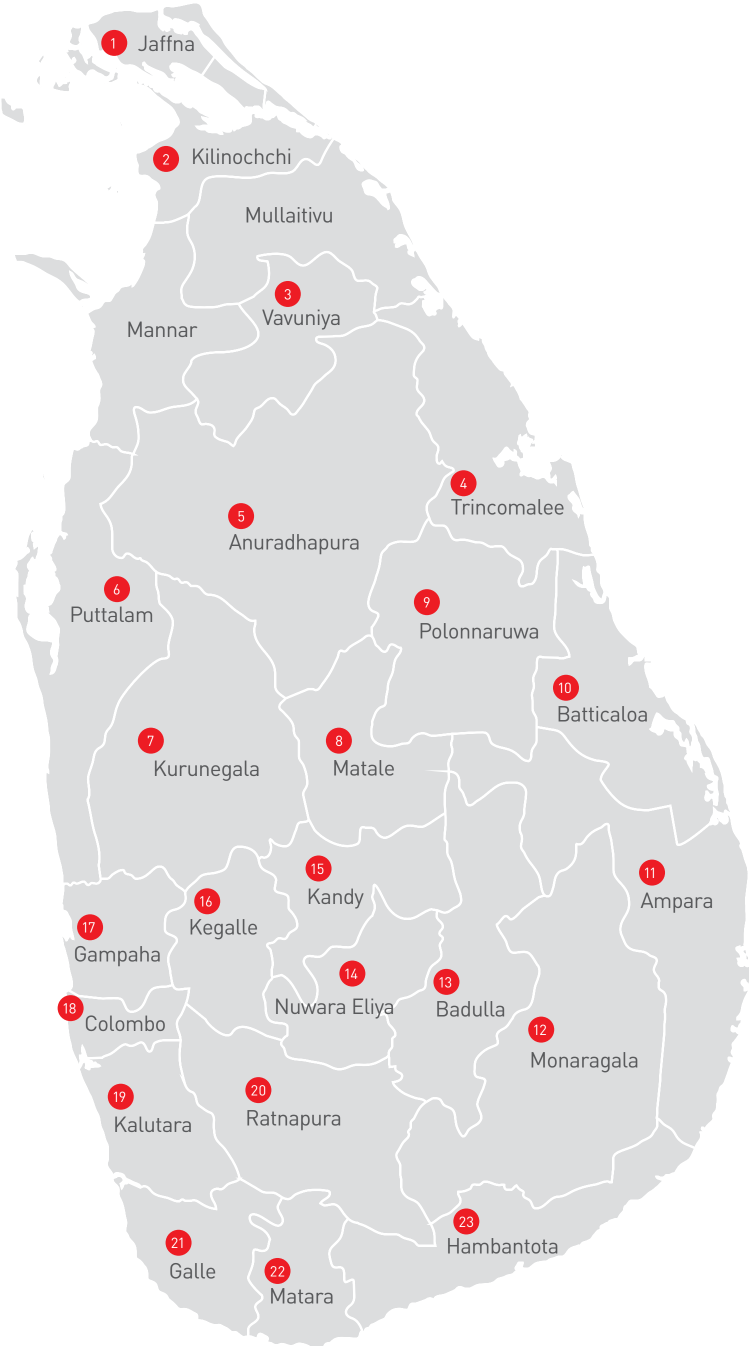
Internet Banking

- No registration and Annual fees
- Free of charge bill payment facility with one of the largest payee networks

Debit Card

- Ability to pay directly for purchases over 50,000 merchant outlets island wide
- Ability to withdraw money from any ATM which carries the Visa or Lanka Pay logo

BRANCH NETWORK



1. JAFFNA DISTRICT
- Chunnakam
- Jaffna
- Nelliady

2. KILINOCHCHI DISTRICT
- Kilinochchi

3. VAVUNIYA DISTRICT
- Vavuniya

4. TRINCOMALEE DISTRICT
- Trincomalee

5. ANURADHAPURA DISTRICT
- Anuradhapura
- Kekirawa

6. PUTTALAM DISTRICT
- Chilaw
- Dankotuwa
- Puttalam
- Wennappuwa

7. KURUNEGALA DISTRICT
- Kuliyapitiya
- Kurunegala

8. MATALE DISTRICT
- Dambulla
- Galewela
- Matale

9. POLONNARUWA DISTRICT
- Kaduruwela

10. BATTICALOA DISTRICT
- Batticaloa
- Kattankudy

11. AMPARA DISTRICT
- Akkaraipattu
- Kalmunai

12. MONARAGALA DISTRICT
- Monaragala

13. BADULLA DISTRICT
- Badulla
- Bandarawela

14. NUWARA ELIYA DISTRICT
- Hatton

15. KANDY DISTRICT
- Gampola
- Kandy
- Kandy City Centre
- Katugastota
- Kundasale
- Peradeniya
- Pilimathalawa

16. KEGALLE DISTRICT
- Kegalle
- Mawanella
- Warakapola

17. GAMPAHA DISTRICT
- Gampaha
- Ja-Ela
- Kadawatha
- Kiribathgoda
- Minuwangoda
- Negombo
- Wattala

18. COLOMBO DISTRICT
- Bambalapitiya
- Battaramulla
- Borella
- Colombo Gold Centre
- Dam Street
- Dehiwala
- Homagama
- Kaduwela
- Kalubowila
- Kirulapone
- Kollupitiya
- Kotahena
- Kottawa
- Maharagama
- Malabe
- Moratuwa
- Narahenpita
- Nawala
- Nugegoda
- Old Moor Street
- Panchikawatta
- Pettah
- Piliyandala
- Rajagiriya
- Ratmalana
- Thalawathugoda
- Wellawatte
- World Trade Centre

19. KALUTARA DISTRICT
- Horana
- Kalutara
- Panadura

20. RATNAPURA DISTRICT
- Balangoda
- Embilipitiya
- Ratnapura

21. GALLE DISTRICT
- Ambalangoda
- Galle
- Hikkaduwa

22. MATARA DISTRICT
- Akuressa
- Matara
- Weligama

23. HAMBANTOTA DISTRICT
- Ambalantota
- Tangalle

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Akkaraipattu	060	Kaiyoom Complex Building, No. 280, Main Street, Akkaraipattu	Ampara	067-4924071	067-2279576	Weekdays : 8.30 AM to 4.00 PM
Akuressa	072	No 54, Matara Road, Akuressa	Matara	041-4935855	041-2284677	Weekdays : 8.30 AM to 4.00 PM
Ambalangoda	041	No 103, Galle Road, Ambalangoda	Galle	091-4943164-66	091-2258064	Weekdays : 8.30 AM to 4.00 PM
Ambalantota	053	No 155/1, Tissa Road, Ambalanthota	Hambantota	047-4931850	047-2225056	Weekdays : 8.30 AM to 4.00 PM
Anuradhapura	032	No 49, Main Street, Anuradhapura	Anuradhapura	025-4976777	025-2234763	Weekdays : 8.30 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Badulla	045	No 22A, Bank Road (Lower Kings Street), Badulla	Badulla	055-4976777	055-2225771	Weekdays : 8.30 AM to 4.00 PM
Balangoda	062	No 84, Barns Rathwatte Mawatha, Balangoda	Ratnapura	045-4928310	045-2289081	Weekdays : 8.30 AM to 4.00 PM
Bambalapitiya	009	No 329, Galle Road, Colombo 04	Colombo	011-4374055	011-2506825	Weekdays : 8.30 AM to 4.00 PM
Bandarawela	048	No 340/1A, Badulla Road, Bandarawela	Badulla	057-4976777	057-2233554	Weekdays : 8.30 AM to 4.00 PM
Battaramulla	063	No 123C, Pannipitiya Road, Battaramulla	Colombo	011-4343259-60	011-2885622	Weekdays : 8.30 AM to 4.00 PM
Batticaloa	040	No 293, Trincomalee Road, Batticaloa	Batticaloa	065-4976777	065-2228486	Weekdays : 8.30 AM to 4.00 PM
Borella	031	No 996A, Maradana Road, Colombo 8	Colombo	011-4374207	011-2696461	Weekdays : 8.30 AM to 6.00 PM
Chilaw	036	No 58, Colombo Road, Chilaw	Puttalam	032-4976777	032-2224756	Weekdays : 8.30 AM to 4.00 PM
Chunnakam	061	No 92, Dr. Subramaniyam Road, Chunnakam	Jaffna	021-4923422	021-2241889	Weekdays : 8.30 AM to 4.00 PM
Colombo Gold Centre	078	No 48 GF & 53 UF, Colombo Gold Center, Central Super Market, Pettah	Colombo	011-4061241	011-2339383	Weekdays : 8.30 AM to 4.00 PM
Dam Street	019	No 22, Dam Street, Colombo 12	Colombo	011-4374130	011-2346052	Weekdays : 8.30 AM to 4.00 PM
Dambulla	049	Jayalanka Building, Kandy Road, Dambulla	Matale	066-4928970	066-2284844	Weekdays : 8.30 AM to 4.00 PM
Dankotuwa	083	No 17 and 19,Nattandiya Road, Dankotuwa	Puttalam	031-4937130	2265790–031	Weekdays : 8.30 AM to 4.00 PM
Dehiwala	015	No 104, Galle Road, Dehiwala	Colombo	011-4374077	011-2730624	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Embilipitiya	038	No 49, New Town Road, Embilipitiya	Ratnapura	047-4976777	047-2261624	Weekdays : 8.30 AM to 4.00 PM
Galewela	071	No 201, Kurunegala Road, Galewela	Matale	066-4929970	066-2288320	Weekdays : 8.30 AM to 4.00 PM
Galle	025	No 32, Old Matara Road, Galle	Galle	091-4976777	091-2226835	Weekdays : 8.30 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Gampaha	011	No 95, Colombo Road, Gampaha	Gampaha	033-4976777	033-2220048	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Gampola	030	No 73E, Nuwara Eliya Road, Gampola	Kandy	081-4944625	081-2353998	Weekdays : 8.30 AM to 4.00 PM
Hatton	075	No 68, Co-Operative Square Building, Hatton	Nuwara Eliya	051-4932040	051-2225665	Weekdays : 8.30 AM to 4.00 PM
Hikkaduwa	084	No 299/C, Galle Road, Pannamgoda, Hikkaduwa	Galle	091-4944956	091-2274084	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Homagama	076	No 381, High Level Road, Homagama	Colombo	011-4385740	011-2098484	Weekdays : 8.30 AM to 4.00 PM
Horana	077	No 95, Ratnapura Road, Horana	Kalutara	034-4941060	034-2266566	Weekdays : 8.30 AM to 4.00 PM
Ja-Ela	066	No 71, Negombo Road, Ja-Ela	Gampaha	011-4344166 011-4344149	011-2232824	Weekdays : 8.30 AM to 4.00 PM
Jaffna	037	No 570, Hospital Road, Jaffna	Jaffna	021-4976777	021-2221485	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM

BRANCH NETWORK

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Kadawatha	026	No 143/H, Kandy Road, Kadawatha	Gampaha	011-4374185	011-2925192 011-2925187	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kaduruwela	052	No 918, Batticaloa Road, Kaduruwela	Polonnaruwa	027-4976777	027-2224474	Weekdays : 8.30 AM to 4.00 PM
Kaduwela	081	No 508/4,Avissawella Road,Kaduwela	Colombo	011-4328295	011-2538552	Weekdays : 8.30 AM to 4.00 PM
Kalmunai	042	No 100, 104, Batticaloa Road, Kalmunai	Ampara	067-4976777	067-2225590	Weekdays : 8.30 AM to 4.00 PM
Kalubowila	047	No 46A, S D S Jayasinghe Mawatha, Kalubowila	Colombo	011-4374254	011-2828338	Weekdays : 8.30 AM to 4.00 PM
Kalutara	033	No 219/3, Galle Road, Kalutara South	Kalutara	034-4976777	034-2221258	Weekdays : 8.30 AM to 4.00 PM
Kandy	005	No 123, D S Senanayake Veediya, Kandy	Kandy	081-4976777	081-2232994	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kandy City Centre	044	No L1-5A,Lower Ground Floor, Kandy City Centre, No 5,Dalada Veediya, Kandy	Kandy	081-4951034	081-2205776	Weekdays : 9.30AM to 6.00 PM Saturday : 9.30 AM to 6.00 PM Sunday : 10.00 AM to 6.00 PM
Kattankudy	057	No 365, New Kalmunai Road, Kattankudy	Batticaloa	065-4926901	065-2248468	Weekdays : 8.30 AM to 4.00 PM
Katugastota	020	No 57, Kurunegala road, Katugasthota	Kandy	081-4946135	081-2500362	Weekdays : 8.30 AM to 4.00 PM
Kegalle	027	No 72 / 74, Main Street, Kegalle	Kegalle	035-4976777	035-2221018	Weekdays : 8.30 AM to 4.00 PM
Kekirawa	067	No 91, 93, Main Street, Kekirawa	Anuradhapura	025-4928934	025-2264598	Weekdays : 8.30 AM to 4.00 PM
Kilinochchi	043	No.161,Kandy Road, Kilinochchi	Kilinochchi	021-4925952	021-2280075	Weekdays : 8.30 AM to 4.00 PM
Kiribathgoda	054	No 67, Makola Road, Kiribathgoda	Gampaha	011-4376061	011-2911041	Weekdays : 8.30 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Kirulapone	022	No 100, High Level Road, Colombo 06	Colombo	011-4374152	011-2515227	Weekdays : 8.30 AM to 4.00 PM
Kollupitiya	003	No 450, Galle Road, Colombo 03	Colombo	011-2565565	011-2301150	Weekdays : 8.00 AM to 8.00 PM Saturday : 8.00 AM to 8.00 PM Sunday : 8.00 AM to 8.00 PM
Kotahena	014	No 215A, George R De Silva Mawatha, Colombo 13	Colombo	011-4374066	011-2346066	Weekdays : 8.30 AM to 4.00 PM
Kottawa	080	No 364/11, High level Road, Kottawa	Colombo	011-4324145	011-2172950	Weekdays : 8.30 AM to 4.00 PM
Kuliyapitiya	046	No 74 Kurunegala Road, Kuliyapitiya	Kurunegala	037-4943733	037-2284141	Weekdays : 8.30 AM to 4.00 PM
Kundasale	058	No 248, Digana Road, Kundasale	Kandy	081-4951644	081-2424624	Weekdays : 8.30 AM to 4.00 PM
Kurunegala	012	No 22, Suratissa Mawatha, Kurunegala	Kurunegala	037-4976777	037-2221731	Weekdays : 8.30 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Maharagama	023	No 171/1, Highlevel Road, Maharagama	Colombo	011-4374163	011-2838397	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Malabe	035	No 410/2, Athurugiriya Road, Malabe	Colombo	011-4374218	011-2744405	Weekdays : 8.30 AM to 4.00 PM
Matale	039	No 165, Trincomalee Street, Matale	Matale	066-4976777	066-2223007	Weekdays : 8.30 AM to 4.00 PM
Matara	013	No 45B, Anagarika Dharmapala Mawatha, Matara	Matara	041-4976777	041-2231362	Weekdays : 8.30 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Mawanella	082	No 300, Kandy Road, Mawanella	Kegalle	035-4935291	035-2246140	Weekdays : 8.30 AM to 4.00 PM
Minuwangoda	069	No 42, Veyangoda Road, Minuwangoda	Gampaha	011-4335770	011-2295929	Weekdays : 8.30 AM to 4.00 PM
Monaragala	059	No 25, Bus Stand Road, Monaragala	Monaragala	055-4929313	055-2277223	Weekdays : 8.30 AM to 4.00 PM
Moratuwa	024	No 18, Galle Road, Moratuwa	Colombo	011-4374174	011-2641354	Weekdays : 8.30 AM to 4.00 PM

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Narahenpita	021	No 526, Elvitigala Mawatha, Colombo 05	Colombo	011-4374141	011-2368667	Weekdays : 8.30 AM to 4.00 PM
Nawala	079	No 162, Nawala Road, Nugegoda	Colombo	011-4322814	011-2853043	Weekdays : 8.30 AM to 4.00 PM
Negombo	010	No 199, St. Joseph's Street, Negombo	Gampaha	031-4976777	031-2231259	Weekdays : 8.30 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Nelliady	056	No 208A, Jaffna Road, Nelliady	Jaffna	021-4923164	021-2262969	Weekdays : 8.30 AM to 4.00 PM
Nugegoda	008	No 132C, High Level Road, Nugegoda	Colombo	011-4374044	011-2828228	Weekdays : 8.30 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Old Moor Street	018	No 314, Old Moor Street, Colombo 12	Colombo	011-4374099	011-2392897	Weekdays : 8.30 AM to 4.00 PM
Panadura	017	No 506, Galle Road, Panadura	Kalutara	038-4976777	038-2243053	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Panchikawatta	002	No 262 , Sri Sangaraja Mawatha, Colombo 10	Colombo	011-4374011	011-2447452	Weekdays : 8.30 AM to 4.00 PM
Peradeniya	051	No 767, 769 & 769/11 Sirimawo Bandaranayake Mawatha, Kandy	Kandy	081-4951180	081-2232441	Weekdays : 8.30 AM to 4.00 PM
Pettah	004	No 64, Keyzer Street, Colombo 11	Colombo	011-4374022	011-5363652	Weekdays : 8.30 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Pilimathalawa	065	No 207, Colombo Road, Pilimathalawa	Kandy	081-4951870	081-2575335	Weekdays : 8.30 AM to 4.00 PM
Piliyandala	055	No 107, Horana Road, Mampe, Piliyandala	Colombo	011-4376251	011-2604070	Weekdays : 8.30 AM to 4.00 PM
Puttalam	064	No 116A, Kurunegala Road, Puttalam	Puttalam	032-4929663	032-2267967	Weekdays : 8.30 AM to 4.00 PM
Rajagiriya	006	No 468, Kotte Road, Rajagiriya	Colombo	011-4374033	011-2866823	Weekdays : 8.30 AM to 4.00 PM
Ratmalana	050	No 446, Galle Road, Ratmalana	Colombo	011-4374261	011-2738840	Weekdays : 8.30 AM to 4.00 PM
Ratnapura	007	No 37, Bandaranayake Mawatha, Ratnapura	Ratnapura	045-4976777	045-2231848	Weekdays : 8.30 AM to 4.00 PM
Tangalle	074	No 3, Annapitiya Road, Tangalle	Hambantota	047-4929626	047-2241215	Weekdays : 8.30 AM to 4.00 PM
Thalawathugoda	068	No 351/E, Pannipitiya Road, Thalawathugoda	Colombo	011-4344650	011-2796016	Weekdays : 8.30 AM to 4.00 PM
Trincomalee	073	No 459, Dockyard Road, Trincomalee	Trincomalee	026-4925525	026-2225700	Weekdays : 8.30 AM to 4.00 PM
Vavuniya	034	No 14, 2nd Cross Street, Vavuniya	Vavuniya	024-4976777	024-2225444	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Warakapola	070	No 139, Kandy Road, Warakapola	Kegalle	035-4928777	035-2267544	Weekdays : 8.30 AM to 4.00 PM
Wattala	016	No 218, Negombo road, Wattala	Gampaha	011-4374088	011-2945104	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Weligama	085	No 204, Hettiveediya, Weligama	Matara	041-4933116	041-2252595	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Wellawatte	029	No 135, Galle Road, Colombo 06	Colombo	011-4374196	011-2362399	Weekdays : 8.30 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Wennappuwa	028	No 6, Chilaw Road, Wennappuwa	Puttalam	031-4934870	031-2249556	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
World Trade Centre	001	Level 2, East Tower, World Trade Center, Colombo 01	Colombo	011-4976777	011-2346053	Weekdays : 9.00 AM to 4.00 PM

CORRESPONDENT BANKS

1. CANADA
Bank of Montreal
Bank of Nova Scotia
Royal Bank of Canada
Toronto Dominian
Canadian Imperial Bank of Commerce

2. UNITED STATES OF AMERICA
Standard Chartered Bank
American Express Bank Ltd.
Bank of New York
Deutsche Bank Trust Company Americas
Habib American Bank
Israel Discount Bank of New York
JP Morgan Chase Bank N.A.
Mashreq Bank PSC
Wells Fargo Bank N.A.
Calyon
CitiBank

3. PERU
Banco Wiese Sudameris

4. CHILE
Banco Santander Chile

5. BRAZIL
Banco ABN Amro Real SA

6. IRELAND
National Irish Bank

7. UNITED KINGDOM
Arab National Bank
Bank of Ceylon
Habib Bank AG Zurich
Mashreq Bank PSC
Shinhan Bank, London Branch
Standard Chartered Bank

8. FRANCE
Commerzbank AG
Union De Banques Arabes ET Francaises

9. NETHERLANDS
ABN-Amro Bank NV
Habib Bank Ltd.

10. LUXUMBERG
Commerzbank AG

11. SWITZERLAND
Habib Bank AG Zurich

12. GERMANY
American Express Bank GMBH
Commerz Bank AG
Deutsche Bank AG
Landesbank Hessen - Thueringen Girozentrale
Sparkasse Essen
Dresdner Bank AG
Standard Chartered Bank

13. DENMARK
Danske Bank A/S
Joh. Berenberg, Gossler UND CO. KG

14. ITALY
Banca Intesa S.P.A.
Banca Lombarda E Piemontese S.P.A.
Banca Popolare Di Vicenza Scparl
Cassa Di Risparmio Di Carrara
Cassa Di Risparmio DI Padova E Rovigo S.P.A.
UBAE Arab Italian Bank S.P.A
Banca Popolare Friuladria S.P.A

15. AUSTRIA
Reichische Volksbanken AG

16. SLOVENIA
Bank Austria Creditanstalt D.D.

17. CZECH REPUBLIC
HVB Bank Czech Republic A.S

18. SWEDEN
Danske Bank AS, Sverige Filial
Svenska Handelsbanken

19. HUNGARY
Kereskedelmi ES Hitel Bank RT
Raiffeisen Bank ZRT

20. SERBIA
Unicredit Bank SRBIJA A.D

21. ROMANIA
HVB Bank Romania SA

22. EGYPT
Mashreq Bank Cairo

23. CYPRUS
Hellenic Bank Public Co. Ltd
National Bank of Greece (Cyprus) Ltd

24. TURKEY
ICBC Turkey Bank AS (Formerly known as Tekstil Banksai A.S.)
Turkiye Garanti Bankasi A.S.

25. SOUTH AFRICA
HBZ Bank Ltd
State Bank of India
Absa Bank Ltd

26. ZIMBABWE
Standard Chartered Bank Zambia Ltd
Standard Chartered Bank Zimbabwe Ltd

27. KENYA
Dubai Bank Kenya Ltd
EABS Bank Ltd.
Standard Chartered Bank Kenya Ltd

28. ISRAEL
Israel Discount Bank Ltd
Mercantile Discount Bank Ltd.

29. JORDAN
Standard Chartered Bank

30. SAUDI ARABIA
Al-Rajhi Bank
Saudi Hollandi Bank Ltd.
Bank of Al- Jazira

31. KUWAIT
Burgan Bank
National Bank of Kuwait
Kuwait Baharain International Exchange Company KSC

32. BAHRAIN
Standard Chartered Bank

33. QATAR
Standard Chartered Bank
Mashreq Bank

34. UNITED ARAB EMIRATES
Commerz Bank AG Dubai branch
Emirates Bank International PJSC
Emirates Islamic Bank
Habib Bank AG Zurich
Habib Bank Ltd.
Mashreq Bank PSC
Standard Chartered Bank
UAE Exchange Centre
Bank Saderat Iran
National Bank of RAS Al Khaimah

35. OMAN
Standard Chartered Bank

36. SEYCHELLS
Bank of Ceylon

37. MAURITIUS
Mauritius Commercial Bank Ltd

38. PAKISTAN
Dawood Bank Ltd
MCB Bank Ltd
Standard Chartered Bank
Summit Bank Ltd
Habib Metropolitan Bank Limited

39. MALDIVES
Bank of Ceylon
Bank of Maldives PLC

40. INDIA
Bank of Ceylon
Bank of Nova Scotia
Deutsche Bank AG
Development Credit Bank Ltd.
HDFC Bank Limited
ICICI Bank Ltd
Mashreq Bank
Standard Chartered Bank
Tamilnad Mercantile Bank Ltd.
YES Bank Ltd
CitiBank N.A.

41. NEPAL
Himalayan Bank Ltd
Laxmi Bank Ltd.
Standard Chartered Bank Nepal Ltd

42. RUSSIA
International Moscow Bank

43. BANGLADESH
Bank Asia Ltd
Standard Chartered Bank
Islamic Bank Bangladesh Ltd
Mercantile Bank Ltd

44. CHINA
Bank of China
Commonwealth Bank of Australia
Deutsche Bank
Jinan City Commercial Bank
Laishang Bank Co. Ltd
Oversea-Chinese Banking Corporation
Standard Chartered Bank
Zhejiang Tailong Commercial Bank
Shinhan Bank China

45. THAILAND
Kasikornbank Public Company Ltd
Standard Chartered Bank (Thai) Plc
United Overseas Bank (Thai) Public Company Ltd
CitiBank

46. MALAYSIA
Deutsche Bank (Malaysia) Berhad
OCBC Bank (Malaysia) Berhad
Standard Chartered Bank Malaysia Berhad

47. SINGAPORE
Calyon
Commerzbank AG,
DBS Bank Ltd
Deutsche Bank AG
Fortis Bank S.A./ N.V., Singapore
Malayan Banking Berhad
National Australia Bank
Nordea Bank Finland Plc, Singapore
Overseas Chinese Banking Corporation Ltd
Standard Chartered Bank
CitiBank
UBAF

48. CAMBODIA
ANZ Royal Bank of Cambodia Ltd

49. VIETNAM
Australia and New Zealand Banking Group Ltd
Standard Chartered Bank

50. HONG KONG
Australia & New Zealand Banking Group Ltd.
Banca Intesa S.P.A.
Deutsche Bank AG
HBZ Finance Ltd.
Standard Chartered Bank (Hong Kong) Ltd
UBAF (Hong Kong) Ltd
Unicredito Italiano SPA
Wachovia Bank, NA
CitiBank N.A.

51. TAIWAN
ABN Amro Bank N.V.
Bank of New York
Deutsche Bank AG,
Standard Chartered Bank
Wachovia Bank, NA
DBS Bank Ltd
CitiBank

52. PHILIPPINES
CitiBank

53. INDONESIA
Bank Negara Indonesia - PT
Bank NISP
Bank OCBC Indonesia, PT
Standard Chartered Bank

54. KOREA
Kookmin Bank
Korea Exchange Bank
Shinhan Bank
Standard Chartered First Bank Korea Ltd
UBAF - Union De Banques Et Francaises
Woori Bank, Seoul
CitiBank

55. JAPAN
Bank of Tokyo Mitsubishi UFJ Ltd
Daishi Bank Ltd
Commerzbank AG
National Bank of Pakistan Tokyo Japan
Okazaki Shinkin Bank
Overseas Chinese Banking Corp. Ltd.
Resona Bank, Ltd
Standard Chartered Bank
UBAF - Union De Banques Arabes ET Francaises
Wachovia Bank, NA
Mizuho Bank
Iyo Bank
Chiba Kogyo Bank
Shizuko Bank

56. AUSTRALIA
ANZ Banking Group Ltd
Commonwealth Bank of Australia
National Australia Bank Ltd
St. George Bank Ltd.
CitiBank Ltd

57. SOLOMON ISLANDS
Pan Oceanic Bank

58. NEW ZEALAND
ANZ National Bank Ltd.

CORPORATE SOCIAL RESPONSIBILITY

The Bank has always strived to understand true requirements of the needy segments of the society and make an effort to fulfill them and improve their quality of life.

Pan Asia Bank has long understood that every business organisation should be driven and motivated by more than mere profits. Hence the Bank has always strived to understand true requirements of the needy segments of the society and make an effort to fulfill them and improve their quality of life.

In line with the above approach, this year, the Bank initiated a country-wide CSR initiative aimed at improving hospital facilities in needy areas.

Horana Base Hospital

Staff members of Pan Asia Bank came forward to improve Ward No 5 of Horana Base Hospital by donating a range of required medical equipment. Further, they also went on to clean and colour wash the ward and attend to several renovation activities such as fixing wall fans and repairing ceiling fans.

The full day program which was conducted by the Bank staff, was seen as fulfilling a dire necessity to help raise the conditions of the hospital, which caters to over 62,000 internal patients and over 275,000 external patients every year.

Sirimavo Bandaranayake Hospital, Peradeniya

As the second project of the Bank's island wide CSR initiative to improve facilities at identified hospitals, the Bank conducted a series of activities to upgrade the facilities at Sirimavo Bandaranayake Hospital, Peradeniya.

Under this project, Pan Asia Bank Central Region staff donated 32 beds to the Infant cardiology Unit at the hospital, which was facing challenges due to resource limitations. This was a long-felt need given the large number of patients coming from far away and face hardships during their stay in hospital.

In addition, the Bank staff also donated camp bed attachments, which addressed a long felt need since the mothers were used to sleep on the floor on a mat or standing with their newborn child due to limited resources at the hospital. These camp beds would allow the young mothers to keep the baby next to their bed while they sleep and would also lessen the strain of having to stand with the child for long hours. These beds can be folded and kept aside when not in use thus not taking additional space.

Further, the staff members spent the day with the patients, providing them with emotional and moral support uplifting the spirit of the patients and the staff members alike.

Teaching Hospital, Batticaloa

The Eastern Region Branches of Pan Asia Bank successfully completed a project at the Teaching Hospital, Batticaloa, which was the third project to be carried out under island wide CSR initiative to improve facilities at identified hospitals.

Teaching Hospital, Batticaloa, is the main hospital in the Eastern Province and the only teaching hospital in the province. The hospital consists of 40 wards with over 1,100 beds of which 150 are in the three paediatric wards. The patients are served by 200 doctors and 500 nurses. Over 100,000 indoor patients and over 400,000 outdoor patients receive treatment from this hospital annually.

Pan Asia Bank staff members cleaned the paediatric wards 27 & 28, added curtains to both wards and donated 300 mosquito nets. In addition, they handed over a fully furnished lactation room for the mothers at the hospital. The staff members also added specially designed, colorful ward files that can be easily organised. A full day of exertion by the Bank staff members left the hospital wards looking spruced up and new uplifting the conditions for the patients.

Digana Rehabilitation Centre

The staff members of Pan Asia Bank Central region came forward yet again to complete bank's fourth project at the Digana Rehabilitation Centre, which caters to a large number of patients.

The Bank had arranged to donate various items such as mattresses, toilet seats,

and wheelchairs etc., based on the needs which were identified during the initial visits to the center.

Kurunegala Teaching Hospital, "Suwamedura" Dental Clinic and General Hospital of Wellawa

The North Western regional branches of the Bank conducted three CSR projects in the North Western region improving facilities at the Kurunegala Teaching Hospital, "Suwamedura" Dental Clinic and General Hospital of Wellawa.

Kurunegala Teaching hospital is one of the largest hospitals in the country serving over 60,000 internal patients and over 300,000 external patients annually. Comprised of 65 wards, the hospital employs 500 medical doctors and over 1,400 nursing staff. Under the CSR project at the teaching hospital, the Bank's staff members refurbished and painted the children's ward (Ward 19), painted all steel furniture in the ward, partitioned the doctors'/nursing staff's rest room, donated storage cupboards for the ward's use, and donated quality chairs for the consultation area.

The "Suwamedura" dental clinic in Kurunegala comes under the purview of the Provincial Health Department of North Western Province and is the largest dental institute in the province with 10 dental doctors and 20 nursing/support staff members. The Regional Dental Surgeon is also based at the institute. At the Suwamedura" Dental Clinic, the staff members refurbished and painted five dental clinic rooms, fixed steel racks for the store room, repaired name boards, and donated a "Scalar" machine to the clinic.

Kurunegala branch of Pan Asia Bank also supplied furniture to three newly constructed "Doctors' consultation rooms" at the General Hospital of Wellawa, Kurunegala. They provided three tables and three chairs for the use of the doctors, and 12 chairs for the use of the patients With these donations, the challenges faced by the doctors of the hospital in treating patients due to a lack of basic furniture were resolved.

Nawalapitiya General Hospital

The staff members of Pan Asia Bank's Gampola branch conducted a CSR project at the Nawalapitiya General Hospital. Under this initiative Pan Asia Bank's Gampola branch staff donated a resuscitation trolley for use in the emergency treatment unit of the hospital.

Chandrikawewa Regional Hospital Embilipitiya

The Embilipitiya branch of Pan Asia Bank came forward to renovate Chandrikawewa Regional Hospital's Ward No: 1. This hospital serves a large number of patients in the area but had not been recently renovated and the patients had been facing major inconveniences due to the dilapidated state of the hospital.

The branch staff, along with the Regional Manager, joined hands to assist the hospital by devoting their time and energy to complete the required renovations.

Financial inclusion

Being a leading national level bank, Pan Asia Bank had well recognised the responsibility of uplifting the economic condition of all Sri Lankans. With this intention in mind, the Bank came forward to provide the main sponsorship for the 2018 Southern Area National Pensioners' Day celebrations. The event was held in Matara, with the participation of officials from the Bank, Pensions Department and number of retired government servants. The Bank made use of this occasion to create awareness about its special loan scheme 'Sammana' which is designed exclusively for retired government pensioners. At this event the staff also educated potential applicants about the special life insurance scheme that is offered with "Sammana" loan scheme with no medical check-ups.

HUMAN CAPITAL

People Strategy

Our people strategy focuses on building a better bank powered by contended and dedicated professionals, working in partnership to create an environment where they can thrive and are enabled to deliver desired results whilst continually achieving sustainable performance. In line with our Human Resources Strategy, we have made a good progress towards achieving a number of key HR priorities. One of these is to enable the Bank to transform in to a performance driven organisation, challenging the status –quo and continually improving, processes services and overall productivity .The way in which both our customers and employees experience the progress made by our bank today is a direct result of this performance driven change.

To achieve our strategic goals and enable change across the Bank, we need the expertise, commitment and enablement of our employees. In 2018, we placed particular focus on anchoring the values and beliefs in all people processes – from recruitment to performance management, talent development and promotions while reviewing and designing bank-wide people processes from our employees' perspective. This is based on the tenet that employee engagement increases when the employee experience is positive. The responsibility of the HR function in its role as enabler of the organisation's transformation thus extends far beyond the simplification of its own internal processes.

Pan Asia Bank began tackling this challenge several years ago and has started to lay the foundation systematically. In 2018 too, the Bank played a significant role in executing its strategy aligned to its key HR goals.

Key HR goals and strategies in 2018

1. Implementation of the Key Performance Indicator (KPI) based online performance management system.

For the second consecutive year, Pan Asia Bank is transitioning all performance management and development processes into one fully integrated approach, which aims to increase performance conversations between managers and employees. The annual performance management cycle focused as much on how employees go about their work as on the results they achieve. In a first step towards implementation, talent reviews have been improved to help managers identify employees' strengths and areas for development. Continuous learning and development are seen as vital to ensuring employees have the skills, knowledge and abilities for their current roles and are prepared for new challenges. This enabled replacing the time consuming manual form filling at the year end. The performance management process comprises KPI-setting early in the year, a mid-year review and a year-end review, with employees' self-assessment playing a critical role.

2. Introduction of a Competency Dictionary

Identified essential competencies of the Bank and introduced a Competency Dictionary detailing competency levels required by staff in each grade and mapped required competencies for each position in the branch network. Marks were allocated at the year-end performance evaluation for each level of competency acquired by the staff.

3. Talent acquisition and opportunities provided for young graduates and college leavers

The key strategic decisions we took during the previous year to ensure that Pan Asia Bank has a steady flow of junior employees annually continued in the year 2018 as well. This decision helped the Bank to remain nimble and change becomes part of its routine.

In 2018, we hired 225 young talents inclusive of university graduates, who started their programme with an orientation event. Further the Bank hired 14 Management Trainees who would be exposed to a comprehensive two year training period in every area of banking before being absorbed into the permanent cadre.

This reflects the Bank's ongoing commitment to building future talent.

4. Internal Mobility Strategy

The year 2018 saw further implementation of dedicated workforce deployment within the Bank to strengthen employee engagement and reduce costs with the introduction of newly designed Staff Movement Policy in the latter part of 2017. In order to increase employee satisfaction, retain knowledge and expertise and allow employees to pursue individual career goals, the HR function continued to focus on internal mobility and enabling redeployment across the organisation. To increase mobility, the Bank launched an initiative for identifying specialised job roles within departments and the skills they require to enable the Bank to offer all such vacancies to internal candidates, in the first instance.

The HR function continues to support restructuring measures by coaching and training managers to prepare them for the fundamental changes that our organisation is going through. While in some areas, jobs have been re-designed, other areas have seen growth and as part of our internal mobility strategy we have helped many employees find new suitable roles within the Bank. Especially, whenever vacancies did occur in senior roles, opportunities were made available for internal candidates having required competencies to occupy such positions. Thus, the Bank is able to retain crucial experienced and talented capabilities. The alignment to businesses has enabled faster and more independent decision-making with more direct influence by the business.

Almost all of our Junior Executive to Manager vacancies were filled by the Bank's existing employees and the ones who recruited externally were only to specialised departments like Legal, IT, Audit and Finance. This provides a clear testament of the importance given to develop and build an effective internal talent pool.

5. Introduction of a transparent Staff Promotion Policy

Introduced a merit based transparent Staff Promotion Policy which covers all grades in the Bank. The staff was able to score marks not only for the written exam and the interviews which was done in previous years but for areas such as the service in the grade, performance rating, completion of professional qualifications, extracurricular activities involved and number of years served in outstation branches. Based on the new policy, the Bank was able to promote 291 staff to higher grades during 2018.

6. Upgrading of Human Resources Information System (HRIS)

In improving the employee experience, the Bank's Human Resources Information System (HRIS), a modern HR portal that offers numerous related tools and services, provides all bank employees with fast, easy, round-the-clock access. Users can upload personal data, and access content with just a few clicks. The upgraded portal led to a noticeable and quantifiable increase in efficiency. This enhanced HRIS platform will support the majority of the Bank's HR services in a single, user-friendly system while integrating data sources from the entire bank. It will provide real-time information and analyses on people-related data such as new hires, training need identification, goal setting, performance evaluation and staff development.

7. Aligning HR policies with business needs

The HR policies of the Bank have been revisited to suit the changing environment and new developments in the industry. Bank's Disciplinary Code, Staff Attendance and Leave procedure, Discrimination and Harassment Policy, Code of Conduct, Grievance Handling Policy, Retention Policy and the Training and Development Policy are among the key policies updated during the year 2018.

A comprehensive Disciplinary Policy was introduced detailing all the steps which need to be followed when taking disciplinary actions. Refreshed the people's understanding of the requirements of the Bank Code of Conduct, enhancing their ability to use good judgement and fostering greater personal accountability, continuing to raise the bar on conduct and behavior.

8. Developing of a new organisational structure

Embed the new organisation structure, ensuring clear responsibilities and accountabilities, and treat staff fairly where roles are changing. Ensured the new structure should continue to improve staff productivity and efficiency, removing unnecessary complexity to enable staff to operate as effective teams.

9. Significant increase in the focus and investment on Learning and Development

The year 2018 can be named as conducting and delivering the highest number of employee learning events in the Bank's history, while reducing costs through a more effective delivery mix encompassing e -learning, branch level training and knowledge sharing sessions.

Capability Building of front line staff

Pan Asia Bank launched a new Learning and Development approach on 'Capability Building of front line staff' to enhance service quality. With this approach, our focus was to create a culture of learning and to build in-house skills which are aligned to customer needs. In 2018, we launched an array of programmes as part of our Capability Building initiatives. Our training courses helped in enhancing our capabilities to offer effective solutions and service experiences to customers. We also introduced the Retail Credit Academies and an Internal Controls workshop among other initiatives under the aegis of Capability Building Training which is one of the most important aspects of human resources practice as it increases the knowledge and skills of an employee for doing a particular job.

It is a tool of developing an individual ability and effectiveness to perform his/her present and future jobs and also increases individual advancement and organisational effectiveness.
The productivity and efficiency of employees also improves with the help of improved quality and high moral training. It is fruitful to both employers and employees of an organisation. An employee will become more efficient and productive if he is trained well for the continued growth and emergence of banking sector, the need for qualified, trained and skilled manpower is on the rise. The banking sector is in need of highly focused and trained employees because they need to be adopted, not only in providing banking products and services, but also in managing customer relationship since bank is in service industry and customer satisfaction and retention of customer play a very important role for it. For this purpose, Pan Asia Bank considers training and development programmes very seriously. Therefore, the Bank has

HUMAN CAPITAL

continued to lay great emphasis on human resource development, to make its employees attain global standards in productivity which is possible through training programmes conducted by the Bank.

Certification Programmes for frontline staff

The competency development needs, especially, in respect of improving essential technical skills, have been addressed by introducing "Certification Programmes" targeting the frontline staff to build specialisation in Credit and Branch Operations covering all branch related functions to build competency in our frontline junior staff.

- Credit Certification - 65 staff underwent structured training and 51 staff were awarded and certified as the Level 1 certified credit officers. This specialised training programme was conducted for the staff who had below 2 years credit exposure in branch network. The programme was stretched for a period of 12 months which was inclusive of workshops, training sessions etc. conducted by our own expertise and external trainers. They will continue to undergo comprehensive credit training on Level 2 credit certification in 2019.
- Branch Operations Certification – 80 staff undergoing structured training since May 2018. This is an in-depth and exhaustive programme on branch operations for frontline staff. This includes training in the areas of customer service, cash and clearing. Training programmes were conducted by our own expertise. These staff will be certified as Certified Tellers during 2nd quarter of 2019.

Building Leadership Development & Capability and developing future leaders

As the Bank seeks to foster management and leadership capability and support employees' professional and personal development, we strengthened our talent agenda in 2018 by expanding leadership, management and acceleration programs for broader coverage across the organisation and by further embedding diversity and inclusion in all people processes.

At Pan Asia Bank, we are constantly investing in enabling our employees to deliver customer-centric solutions, nurturing leaders, cultivating deep domain skills and building a culture of data-enabled decision-making. At Pan Asia, we have identified three emerging capabilities as key to leveraging the opportunities in the transforming Business Landscape – Innovative Thinking, Professionalism and Customer Service Skills. By investing in equipping our employees with these capabilities, we are ensuring that the Bank continues to be future-ready. As part of our endeavour to become future-ready, we have institutionalised a robust leadership potential assessment and leadership development process. These processes identify and groom leaders for the future and also enable succession planning for critical positions. We continuously invest in Leadership Development programmes for our promising staff. In addition, we enable our employees to constantly up-skill themselves in the context of a dynamic environment.

Leadership development programmes for the following key talents in the grades of Senior Manager, Manager and Junior Officer Levels are currently underway:

- Successors for Key Management Personnel (KMP) & other senior Leadership position – 32 Managers / Senior Managers are undergoing structured development training since February 2018
- Manager Skill Development programme – 25 identified Assistant Managers completed the training and this will be continued with another batch in 2019.
- Job Shadowing programme - 30 promising staff are currently undergoing training which commenced in September 2018
- Management Trainee Development Plan - 14 Management Trainees undergoing training since August 2018

Introducing E-Learning modules

The Bank took the initiative to launch an E-Learning module which is a new system of leaning through online to its staff and initially introduced 4 product courses together with a course on Service Excellence to the staff, which they could login to the cloud even through their personal devises. The Bank is hoping to introduce more e-learning courses including a Foreign exchange course in 2019. These e-learning courses lead to reduction of cost as well as convenient to all staff.

Shift towards internal trainers

The trainer faculty which was formed previous year was utilised to conduct more than 95% of in-house trainings in 2018 which shows that the Bank consciously increased its dependency on its internal trainers' faculty to conduct the trainings to ensure minimising the cost and achieving a higher return on investment.

This was possible due to the past two years of careful development with a heavy investment on the internal trainee pool through the Train the Trainer programme. Now they have been entrusted with the areas where they are specialised in to conduct the trainings to the staff.

Change of the mindset to fit in to the culture

Towards bringing attitudinal change among frontline staff and executives grooming for managerial positions, HR tools, like learning circles, regular staff meetings, knowledge sharing sessions and brain storming sessions have been implemented for effective team building and fostering collective excellence. The structured training is imparted to empower large number of young employees who have been recruited during the year 2018 and also other senior employees by sensitizing them regarding bank's culture, ethos, sense of belongingness, ownership and concern for customers with view to achieving the corporate objectives towards organisation growth.

Further, through mentoring and workshop based training, changed the mindset of senior branch staff enabling them to work with increased number of trainees whilst providing on the job training for them.

The Bank has taken the initiative to groom the newly recruited Junior Executive Trainees to the Bank's culture and to create an intimacy towards the Bank by conducting outdoor activities on team building and motivation.

Strengthen the focus on line manager capability to ensure managers understand and are able to comply with the increasingly complex regulatory environment in which the Bank operates.

Continuous increase in Training hours

The Bank has in place an exhaustive training process that cover Internal Training, External Training and Foreign Training.

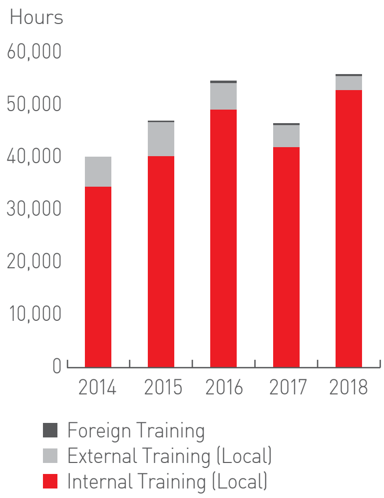
Further, the Bank's quest to enhance the competencies of the workforce continued through focused and need based training at various institutes of repute, selected by the Bank. Customised programmes are also organised to develop expertise in certain niche areas like Credit, Risk Management, Treasury Operations and IT.

Total Training Hours

Training Category	2014	2015	2016	2017	2018
Internal Training Hours (Local)	34,523	40,292	49,183	41,980	52,886
External Training Hours (Local)	5,712	6,478	5,042	4,270	2,661
Foreign Training Hours	-	277	451	374	360
Total Training Hours	40,235	47,047	54,676	46,624	55,907

HUMAN CAPITAL

Total Training Hours



During the year, the Bank has trained over 1,000 employees, covering a wide range of functional areas, including Credit Operations, Risk management, Selling Skills, Branch Banking Operations, People skills, Product Knowledge and Soft Skill Development under a novel programme, viz., Job Shadowing programme where a talent pool was formulated, comprising officers from Manager to Junior Executive Grades, who are willing to take up challenging assignments in the identified critical or specialised areas.

Pan Asia Bank Toastmaster Club

Pan Asia Toastmasters won the Area Contest -Area A5, by wining 3rd Place on - Humorous Speech contest and Evaluation Contest held in October 2018. Our members were recognised at the Division Conference where two of our members achieved the Competent Leadership Award and another two achieved Competent Communicator Award.

In the year 2017/2018, the club as a whole was awarded the "Select Distinguish Club" award and in the year 2018/ 2019, Pan Asia Toastmasters is aiming to achieve the "President Distinguish Club" status.

10. Employee engagement in decision making

During 2018, numbers of opportunities were available for the staff to actively engage with direct discussions with the CEO and top management on how to improve bank's performance. The staff concerns were addressed in the following forums where the discussions were held openly and with mutual trust and respect.

(i) Joint Consultative Council (JCC)

Pan Asia Bank encourages close working relationships among its employees and feels that JCC would lead to close collaborative relations among all employees in the Bank and would increase communication, goodwill, commitment and cooperation of all concerned for the long-term benefit of the Bank and the employees.

The employees are encouraged to participate in the decision making process of the Bank by involving in direct discussions and making suggestions relating to improving processes of prevailing systems, business opportunities, determining work schedules, and emphasising employee concerns through the JCC which consists of employees at all level representing each business unit and department and meets regularly with the CEO and Corporate Management Team.

During the year, three JCC meetings were held. The matters raised were discussed effectively and the Bank was able to give prompt actions to address and resolve the problems.

(ii) Coffee with CEO

In order to receive direct feedback about new initiatives, ongoing projects and performance issues, CEO invites front line and junior grade staff for a meeting with him.

Several meetings were held this year and the meetings were well attended, the suggestions were made and decisions were taken then and there.

The cordial conversation which often occurs over a tea or coffee provides an effective platform for both parties to be very much genuine in their thoughts and remarks.

11. Staff Engagement Initiatives

The Bank invests in Employee Engagement as it helps to retain talent, nurture employees, and build strong, lasting teams while improving productivity. Bank keeping its traditions organised innovative employee engagement initiatives during the year 2018 as illustrated and all employees enthusiastically look forward to these events.

Quiz and New Year Celebrations

The annual inter branch/department quiz competition and New Year celebrations was held in May for the fourth consecutive year at Golden Rose Hotel Boralesgamuwa, amidst the participation of a large number of staff members numbering over eight hundred.

"Pan Asia Bank Intellectuals 2018" received an overwhelming response from the staff with over 100 branches/ departments taking part in this popular competition that showcased the intellectual prowess of the staff members. This event was aimed at encouraging continuous professional development of the staff members. The quiz competition was structured in a manner that helps the participants to refresh their memory on key principals covering Banking operations thereby enabling them to perform more effectively on the job.

There was much excitement among the participants to take part in the activities during the New year celebrations, which was followed by exciting Aurudu games and cultural activities, which proved to be very effective in enhancing employee engagement and was enjoyed by all.

Pan Asia Theme Song

The theme song for the Bank was developed for the 1st time, during the year 2018 and this was launched officially at the Quiz and New year celebration event where the largest number of staff gathering event during the year.

The music was created by the veteran musician, Dr. Rohana Weerasinghe, Lyrics by Bandula Nanayakkarawasam and the song was sung by our own staff at Pan Asia Bank.

Poson Bathi Gee

In keeping with its tradition Pan Asia Bank conducted a 'Poson Bathi Gee Saraniya' in June at its Head office to mark Poson Poya day. Staff members were trained by Visarada Krishantha Erandaka (popular musician and vocalist) and SLBC Orchestra provided music for this event.

'Ice Cream Dansala' organised by the HR Department which was patronised by a large number of people including employees from the Head Office and branches apart from the general public was also coupled with Poson Bathi Gee Saraniya.

Newsletter - Pan Asia Connect

'Pan Asia Connect', the Bank's newsletter is an effective communication tool which was introduced for the first time in 2014. The Bank releases the newsletter covering vital information on its activities during the period under review. In the year 2018, the Newsletter was published on bank's intranet with the intention of reducing the cost and moving to a paperless environment.

23rd Anniversary Celebrations

To coincide with the Banks 23rd anniversary, Pirith sermon followed by an almsgiving was held in October at its Head Office. Hindu, Catholic and Islamic ceremonies were also held during this period to mark this momentous milestone.

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Long Service Awards

Felicitation ceremony was organised to recognise 41 long standing employees who had served the Bank for over 10, 15 and 20 years respectively during this year. The ceremony was held at the "Aryana Reach" in November 2018 to honour those employees who contributed to make Pan Asia Bank the dynamic and innovative organisation it is today. The recipients were awarded with Gold sovereign, cash tokens and certificates to recognise the immense contribution towards the growth and stability of the Bank through their experience, commitment and loyalty.

Seasonal Fairs

Seasonal fairs were held in April and December 2018 providing opportunities for suppliers to sell their goods to employees at specially discounted rates along with exciting branded offers. Staff members thronged the fair to pick a bargain from a host of exciting products. The fairs were greatly appreciated and looked forward to by the employees.

Dinner Dance

One of the most anticipated events in bank's calendar the Annual Dinner Dance was held in September 2018 at the Hotel "Grandeeza" themed "Moulin Rouge" organised by the Bank's Sports Club. It was a scintillating night filled with fun, music, dance and many more excitements. Pan Asians around the country turned out in their numbers clad to enjoy the night.

Christmas Carols

Pan Asia Bank shared the spirit of Christmas with an enthralling programme of Carols. The Bank's choristers showcased their musical talent with an entertaining performance with the arrival of Santa. The service was held at the Kollupitiya branch in December 2018. This was witnessed by many employees and other stakeholders of the Bank.

Kiddies Party

The Kiddies Christmas party organised by the Bank's Sports Club was held in Waters Edge under the theme of "Santa's Workshop". There were many exciting and fun filled events such as Bouncer Castle, Face painting, Merry go round, Snow and bubble machines and the Magic show. This eagerly anticipated annual event was attended by many employees and their families.

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Vision and Culture

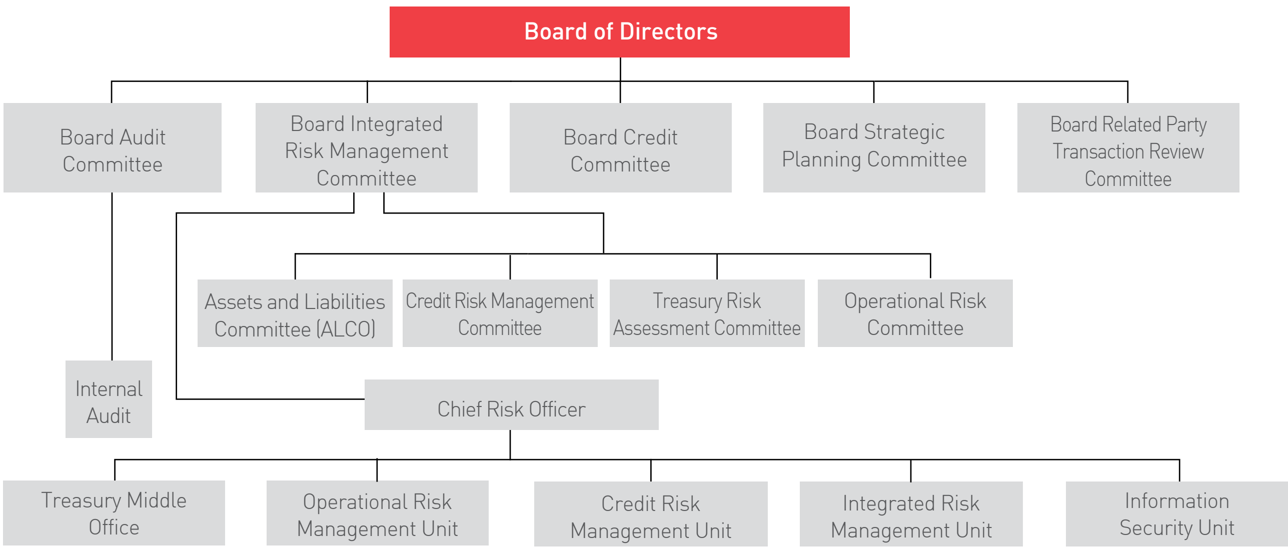
Every business faces risks that present threats to its success. In its broadest sense, risk is defined as the possible destruction associated with a situation - the product of impact and probability. Effective risk management by way of adapting industry best practices, using processes, methods and tools for quantifying and managing these risks and uncertainties allows the Bank to exploit opportunities for future growth while protecting the value already created. Based on the overall strategy and five year strategic plan, the strategic risk takers including Board of Directors, Chief Executive Officer and Corporate Management decide how much risk the Bank is willing to take, which is known as risk appetite, and make sure this appetite is not exceeded.

In addition to the use of formal controls and high-quality risk reporting, the Bank ensures appropriate risk culture which also plays a key role in enabling the risk appetite set out by the Board to be understood and adhered to at all levels of the organisation. Risk culture, which is the values concerning risk shared by all employees of the Bank, is a set of shared attitudes, values and practices that characterise how the Bank considers risk in day to day activities. The Bank's risk management function focuses on identifying what could go wrong, evaluating which risks should be dealt with and implementing strategies to address those risks by way of identifying risks 'in advance' and has formulated a response plan in place to be better prepared and have more cost effective way of dealing with them if they do occur.

The control techniques employed by the Bank for risk management are;

- Risk policies and governance at the Board level.
- Organisation structure with required independence, authority, responsibilities and accountabilities.
- Corporate governance system equipped with the Board Committees constituted according to the industry best practices and regulatory guidelines.
- Independent risk management function led by Chief Risk Officer and separate units to manage main risk associated with the business mainly credit, market, operational and Information security, supported by officers with required expertise and exposure in respective risk areas. Risk aggregation methodology is adopted to assess the overall risk level of the Bank.
- Continuous adherence to regulatory guidelines and management effort to adapt to the dynamic market environment with appropriate risk assessments on an ongoing basis.
- Adherence to the Internal Capital Adequacy Assessment Process in order to maintain adequate risk based capital buffer.
- Maintain a well balanced risk management function with required independence and effective support for decision making.
- Implementation of Loan Review Mechanism and reporting the outcome to the Board Integrated Risk Management Committee through regular reports.
- Risk oversight - This constitutes identifying and assessing risks, ensuring the risk is appropriately controlled by way of setting goals and monitoring & reporting same to the Board Integrated Risk Management Committee for corrective and remedial action.
- Day-to-day risk management function is done by the business units which are also known as the 'first line of defense'.

The responsibility of understanding the risks assumed by the Bank and ensuring that the risks are appropriately managed, is vested with the Board of Directors. The Board ensures that the Bank has established a robust and acceptable risk culture with clear



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policies that define risk management as the responsibility of Bank's corporate and senior management subject to the oversight of the Board establishing limits based on risk appetite of the Bank. The senior management has established an integrated risk management framework in order to assess and appropriately manage various risk exposures of the Bank, developed systems to monitor risk exposures and relate them to Bank's capital on an ongoing basis, established methods to monitor the Bank's compliance with internal policies relating to risk management and effectively communicate all policies and procedures throughout the Bank via Bank's website and training programmes.

Credit Risk

Credit risk refers to the potential loss of interest, capital or value of the collateral due to an obligor's failure to meet the term of a contract or otherwise failing to perform as agreed. Credit risk can arise from both on and off balance sheet activities consisting of contingent liabilities incurred by the Bank and due to the Bank, from counterparties such as letters of credit, letters of guarantee etc. The Bank has adopted stringent credit risk management process to mitigate the risk associated with the loan book by way of following strategic initiatives:

- Credit risk management organisation structure incorporating a Credit Risk Management Unit reporting to Chief Risk Officer (CRO) who in turn reports to the Board Integrated Risk Management Committee.
- Written policies on credit granting and procedure - Bank - wide risk management, credit risk management, loan review mechanism and review of such policies on a yearly basis.
- Instructions and guidance to employees in credit chain on annually/quarterly review of credit facilities, credit origination and maintenance procedures and guidelines for portfolio management.
- Established accountability of branch managers, relationship managers and business unit heads for managing risk within risk management framework of the Bank.
- Post disbursement credit monitoring unit, which is coming under the direct supervision of Deputy General Manager – Recoveries, monitors payment due loans and advances to initiate recovery, rescheduling and restructuring action to curtail new additions to non performing loans and advances, thereby ensuring quality of advances portfolios.
- Delegate authority on lending powers to officers in the credit chain based on a predetermined consistent set of standards of grade, experience and job functions, abilities and judgemental capabilities.
- Assignment of borrower risk rating for all general credit facilities.
- Risk based pricing:
  When a borrower's credit risk increases, the Bank demands a higher credit risk premium by way of increasing the interest rate.
- Requirement for higher level sanction for proposed credit facilities as risk rating deteriorates.
- Established dual responsibility in the credit proposals with independent review by Credit Risk Management Department for credit facilities other than small value and structured retail facilities.
- Established independent Credit Administration Unit to ensure accuracy and maintenance of security documentation of credit facilities and limit setting.
- Established credit risk limits for risk rating and concentration on segment, industry, geography, and personal banking products.
- Independent loan reviews carried out by the Credit Risk Department by way of pre and post disbursement examinations of credit papers in order to ensure the quality of the loan book.
- Impairment on the potential delinquents by way of reviewing objective evidence assessments by the business units and adequacy of impairment provisions to absorb credit risk of the lending book.
- A constant stress testing methodology is applied on all significant credit exposures and stress tests are carried out on a regular basis.

Credit Risk Management Committee

The committee is responsible for the day to day credit risk management, operation and control functions of the Bank in conformity with policies and strategies approved by the Board of Directors. The Committee is chaired by the CEO and comprises senior management from credit related function of the Bank.

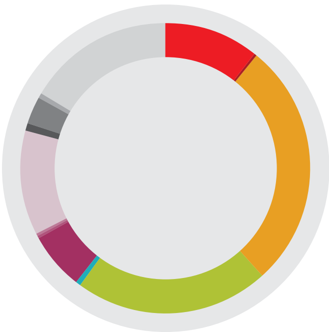
Credit Concentration

Concentration risk turns up when the credit portfolio is unevenly distributed to individual issuers or counterparties or within industry sectors/sub sectors, segments, internal risk ratings, geographical regions and products.

Sector Concentration

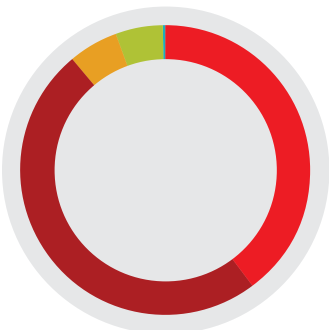
The Bank's sector concentration is in par with the widely accepted norms, risk appetite and regulatory requirements directed by the regulator. Exposure to each sector is closely monitored by the Board Integrated Risk Management Committee against the predetermined limits. Exposures which exceed the predetermined limits are extensively deliberated at the meeting and corrective action is taken based on regulations and risk appetite of the Bank. The committee strikes the correct blend of portfolios ensuring least impact on the business when changes taken place in the operating environment

Sector wise Concentration



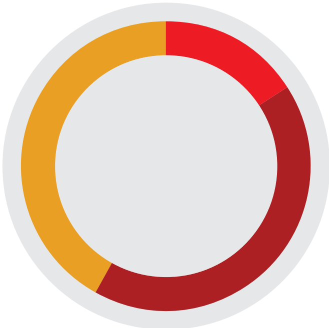
Agriculture, Forestry & Fishing	10.82%
Arts, Entertainment & Recreation	0.28%
Construction & Infrastructure	27.33%
Consumption	21.79%
Education	0.55%
Financial Services	6.28%
Health Care, Social Services & Support Services	0.33%
IT and Communication Services	0.38%
Manufacturing	11.55%
Professional, Scientific & Technical Activities	0.82%
Tourism	2.95%
Transportation & Storage	0.61%
Wholesale & Retail Trade	16.31%

Risk Rating wise Concentration



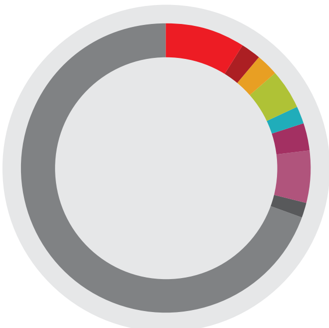
Grade 1	39.84%
Grade 2	49.31%
Grade 3	5.46%
Grade 4	5.36%
Grade 5	0.03%

Segment wise Concentration



Corporate	16.00%
SME	42.20%
Retail	41.80%

Geographical Concentration



Central	9.12%
Eastern	2.06%
North Central	2.66%
North Western	4.45%
Nothern	1.85%
Sabaragamuwa	3.12%
Southern	5.73%
Uva	1.59%
Western	69.42%

Market risk

Market risk is the risk associated with movements in market factors, including foreign exchange rates, interest rates, equity prices and commodity prices which have an impact on the Bank's income or the value of its portfolios.

Its effective recognition could minimise the potential loss of earnings or economic values arising principally from customer driven transactions and banks relevant investments.

The categories of market risk of the Bank are:

- Interest rate risk
- Foreign exchange risk
- Equity price risk
- Commodity price risk

Market Risk Governance

Market risk exposures arising from the trading book are managed by the Treasury Department whilst the non trading activities relating to market risks are managed through the ALCO (Assets and Liabilities Committee).

The Board Integrated Risk Management Committee (BIRMC) is responsible for policies and other standards for the control of market risk. Market Risk goals are closely monitored by Treasury Middle Office and discussed on a periodic basis for appropriate and timely action.

Value at Risk (VaR)

The Bank measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology for selected portfolios using the following simulation techniques:

- Historical simulation
- Monte Carlo simulation
- Parametric method

VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. This exercise is carried out by Treasury Middle Office with the help of Bloomberg system. Results are reviewed periodically at the Board Integrated Risk Management Committee (BIRMC) meetings.

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VaR is calculated for expected movements over a horizon of one month with confidence levels of 95%, 97.5% and 99%.

Stress Testing

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward looking scenarios. A consistent stress-testing methodology is applied to trading and non trading books. Regular stress-tests are carried out on liquidity risk (both bank specific and market specific scenarios), foreign exchange risk and equity risk.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is the policy of the Bank to ensure that adequate liquidity is maintained in all currencies to meet its obligations. This is performed through cash flow management, maintenance of liquidity ratios such as statutory liquid asset ratio, liquidity coverage ratio and advances to deposit ratio.

Assets and Liabilities Committee (ALCO)

The Bank's exposure is controlled by limits approved by the Board which are monitored by the Assets and Liabilities Committee. ALCO overlooks the management of the Bank's overall liquidity position, and is responsible for Liquidity Risk and Market Risk Management of the Bank and implementation of liquidity management policies, procedures and practices approved by the Board of Directors. This is achieved through proper representation of key business heads, frequent ALCO meetings and continuous monitoring of the liquidity position of the Bank through reports submitted by Treasury Middle Office and Planning Departments.

Treasury Risk Assessment Committee (TRAC)

The Treasury Risk Assessment Committee focuses on strengthening the risk management process with clear responsibilities. The Committee is responsible and accountable to the Board Integrated Risk Management Committee. The Committee suggests appropriate action to improve the Treasury Risk Management Policies/ Procedures based on Key Risk Indicators. The Committee consists DGM- Treasury, Chief Financial Officer, Chief Risk Officer, Manager-Treasury - Settlements, Chief Dealer & Senior Manager -Treasury Middle Office. The Committee shall work closely with BIRMC and senior management and make recommendations on behalf of BIRMC within the frame work of authority and responsibilities assigned to committee.

Treasury Middle Office (TMO)

Market Risk management function which is separate from the Treasury is monitored by the independent Treasury Middle Office (TMO) which consist of highly qualified experienced staff members. Key monitoring activities of Market Risk/Middle Office include:

- Daily monitoring of adherence to Board approved counterparty limits and exposure limits set by the Central Bank of Sri Lanka (CBSL) such as net open position limit.
- Monitoring activities prescribed by CBSL such as Statutory Liquid Asset Ratio, Reserve Requirements etc.
- Monitoring of trading platform conversations including take profit and loss limits.
- Marked to market calculations of trading & investment portfolios.

The BIRMC discusses in detail the key risk goals in relation to market risk at each meeting. During the year under review, corrective actions have been taken where necessary to mitigate / avoid current and potential market risks envisaged. This is supported by a Board approved treasury procedure manual. In addition, Value-at-Risk (VaR) computations are done by Treasury Middle Office on a monthly basis.

The Bank will continue to strengthen its Middle Office function in 2019 by further strengthening its market risk & liquidity risk assessment and monitoring activities.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed Internal Processes, People, and System or from External events. Operational Risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorised activities, errors, omissions, inefficiency, and system failure or from other external events fall within the operational risk definition.

Objectives and Benefits

Efforts on operational risk and control management are increasingly valuable to the business at Pan Asia Bank. In addition to the regulatory need, these efforts are important to minimise losses and protect the Bank's capital.

All employees have a clear vision of the potential benefits. Some of the objectives and benefits of the Operational Risk Management Framework of the Bank are as follows:

- **Identifies the Risk Exposures**

  Operational Risk Management Framework enables the Bank to identify, measure, monitor and control the inherent risks of the business/operations units to mitigate losses.

- **Develops Visibility**

  The Operational Risk Management Strategy provides visibility to the ongoing risk management efforts and brings high risk areas to the focus of management and enhances capability to compile and submit reports to appropriate risk management committees and forums and the regulator.

- **Risk Smart Workforce**

  The application of Risk Management Framework and strategy support a cultural shift in the Bank to have risk smart employees and a risk sensitive work environment, which help the Bank to have a competitive edge in the market.

- **Personal Accountability of Employees**

  Operational Risk Management Framework allows the management to better incorporate accountability into the work environment and individual performance of employees.

- **Efficient Allocation and Optimum Usage of Bank's Capital**

  Under the local regulatory directions, the banks are required to maintain capital on Operational Risk and further require banks to apply more advanced approaches to calculate the capital requirements. With streamlined risk management processes the Bank strives for efficient allocation of risk sensitive capital.

- **Brand Image of the Bank**

  Better Operational Risk Management will enhance and improve the Bank's ratings, share price and market reputation since industry analysts perceive it as long term stability and performance of the Bank.

Philosophy and Principles

The following philosophy and principles govern the management of Operational Risk in the Bank:

- The internal operating policies of the Bank's Operational Risk Management Framework are outlined in the Operational Risk Management Policy which is approved by the Board of Directors and annually reviewed and updated.
- Currently the Bank is contemplating to migrate to advanced approaches in calculation of capital charge for operational risk.
- The Bank's Operational Risk Management practices are subject to independent review by internal and external auditors.
- The Bank has a dedicated Operational Risk Management Unit to manage and monitor operational risks and controls, ensure loss data is accurately recorded and reported internally as well as externally. Operational risk related incidents are closely investigated and recommendations given on required controls to avoid similar operational risk related incidents in the future.
- Based on the requirement to maintain a strong Operational Risk Management process with clear responsibilities,

Methodologies and Strategies

For effective monitoring and mitigation of Operational Risk, the Bank has implemented following methodologies and strategies:

The Management of Operational Risk comprises;

- Identification, Assessment, Monitoring and Control of Operational Risk and Reporting. The above is required to maintain losses within acceptable levels and to protect the Bank from foreseeable future losses. Acceptable losses are highlighted in the Bank's risk appetite statement.
- The Operational Risk Management unit is supervised by the Manager Operational & Integrated Risk. The department is involved in completing Risk and Control Assessments (RCA) for business/ operations units of the whole bank.
- Operational Risk related incident reports are investigated and required remedial actions are recommended and reported to relevant Key Management Personnel.
- Significant risk exposures are reported to business/ operations units as and when identified.
- Approved key risk indicators are managed through data gathering and report to BIRMC on a quarterly basis.
- The Chief Risk Officer has an effective monitoring mechanism of operational risk by way of active communications and discussions with employees attached to the Operational Risk Management Unit and Manager - Operational Risk.
- Operational Risk Management Unit provides continuous training to

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employees of the branch network and all other departments on Operational Risk Management Framework.

- Risk and Controls Assessments (RCA) are performed on new and existing products and processes to minimise any losses that may be incurred on identified risks. In addition the activities to be outsourced and cost effective controls are recommended to relevant business/ operations unit to minimise any future losses.
- Introduction of Stress Testing on Operational Risk Losses is now conducted quarterly. The results are tabled at the Board Integrated Risk Management Committee.
- Minimise the financial impact of operational risk related losses through adequate monitoring, follow-up and utilisation of insurance cover.

Operational Risk Management Sub Committee

The Committee is responsible for supporting and overseeing the functioning of Bank's operational risk management and business continuity management to comply with Bank's operational risk management policy. This includes monitoring and supporting every unit in implementing the operational risk management framework at the unit level, managing operational risk at the organisation level, reviewing operational risk management aspects in product and service development process, calculating the capital requirements for operational risk in line with the Basel framework, and maintaining the operational risk database and analysing the loss data in the database, etc.

The Bank also ensures the cooperation among Operational Risk Management Unit, Compliance and Audit and Control Division, in respect of information sharing, analysing and setting of controls to enhance the efficiency of operational risk management and internal control of the Bank.

Roles and responsibilities for risk management are defined under a Three Lines of Defense Model. Each line of defense describes a specific set of responsibilities for risk management and control framework.

The first line of defense is that all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities.

Business unit and function heads are accountable for risk management in their respective businesses and functions.

The second line of defense comprises the Risk Control Owners supported by their respective control functions. Risk Control Owners are responsible for ensuring that the residual risks arising under their responsibilities remain within risk appetite of the Bank. The scope of each Risk Control Owner's responsibilities is defined by a given type of risk and is not constrained by function and business.

The third line of defense is the independent assurance provided by the Internal Audit function. Its role is defined and overseen by the Board Audit Committee. The Internal Audit provides independent assurance of the effectiveness of management's control of its own business activities (the first line) and of the processes maintained by the Risk Control Function (the second line). As a result, the Internal Audit provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework

Insurance

As part of a risk management approach the Bank uses insurance as a 'risk transferring strategy' for low probability and high severity impact events that are beyond the control of the Bank such as damage to physical assets by natural disasters, fire etc. The Bank has also transferred such Risk by obtaining necessary insurance policies from leading insurance providers covering ; burglary, transits, forged cheques and securities, counterfeit currencies, infidelity and negligence of employees, teller cash shortages, pawned articles, fraudulent withdrawals and shortages from ATMs, electronic equipment, strikes and riots, terrorism etc. The adequacy of the insurance covers are reviewed and monitored by relevant departments in the Bank.

The Business Continuity Plan (BCP)

The Business Continuity Plan (BCP) is an essential part of an organisation's response planning. It sets out how the business will operate following a disaster incident and how it expects to return to 'business as usual' in the quickest possible time thereafter. The BCP of the Bank covers all areas of banking operations with agreed arrangements for bringing events under control. The necessary resources for maintaining critical business functions and staff required are also looked at in the plan. The BCP document is reviewed by the Bank Disaster Recovery Team along with the respective business users annually and obtains the Board approval. Disaster Recovery Testings are conducted in once in six months for Core Banking and other critical systems to ensure the business resilience in an event of a major system disruption. BCP policy has been defined clearly establishing the responsibilities of all the critical departments to further embed the business continuity culture in the day to day work.

Due Diligence Tests on Activities Outsourced

In the provision of banking services, the Bank outsources few service activities related to the financial services and core banking, to meet the challenges of rapid changes and innovations in technology leads to increasing specialisation in the market, cost control of operations by minimising costs of directly handling such activities, and effectively compete in the market.

The outsourcing activities are governed by the laws applicable to the banking industry and directions issued by the regulator. Further, the Bank has an Outsourcing Policy approved by the Board of Directors which clearly stipulates internal controls and due diligence in obtaining outsourced services. An Outsourced Activities Monitoring Unit has been established to centrally overlook all outsourcing arrangements in the Bank, annual review of all outsourced activities will be done by the Manager Operational Risk with the respective business units.

Information Security Risk

The Bank recognises that information is a critical asset and how information is managed, controlled and protected has a significant impact on the delivery of critical Banking services and meeting regulatory requirements. It is mandatory that information must be protected from unauthorised use, disclosure, modification, damage and loss.

Additionally, information systems and assets must be available when needed, particularly during emergencies and times of crisis.

In recognition of the increasing need to protect the Bank's critical business, intellectual and computing resources, the Bank has created the Information Security Office and IT Security Programme for the Pan Asia Bank and in meeting regulatory requirements.

Strategic Risk

The Bank does not operate in isolation and interacts not only with financial markets. It also deals with the 'real' economy. Accordingly, Bank is exposed to the strategic risk that every firm faces regardless of the industry it operates in.

Strategic risk refers to the risk of organisation's earnings and profitability that could arise from strategic decisions, changes in business conditions and improper execution of strategies.

In cascading strategic goals and business objectives, Bank has established clear communication channels from its top to bottom and vice versa. The Bank has also allocated a significant amount of resources in the operating system, infrastructure, delivery channels and increasing managerial skills.

A formal framework has been introduced to assess strategic risks arising from market trends/ development in competition, product, channel, process, human resources and technology. The Bank's overall strategy has been periodically reviewed by the Board Strategic Planning Committee. The Committee assesses the impact, risk and corrective and remedial action is taken in order to ensure the overall effectiveness of the strategy

Reputation Risk

Reputational risk arises from damage to the Bank's image among stakeholders due to adverse publicity with regard to business practices and/or management and it could result in loss of revenue or declining of stakeholder confidence in the business. The reputation of the Bank can be perceived as an intangible asset similar to goodwill.

The Bank considers reputational risk as a consequence of a failure to manage its key risks. The Bank is therefore committed to manage reputational risk by promoting strong corporate governance and risk culture at all levels of the organisation, by understanding how different aspects of its business affect stakeholders perception of the organisation through effective communication in the form of timely and accurate financial reports and new bulletins, by maintaining a strong media presence, valuable client service and investor relationships and complying effectively with current laws and regulations.

Way Forward in Risk Management for Foreseeable Risk which may have an Impact on the Bank

The current risk management tools will be further strengthened by the advance measures to ensure that the actual risk component is well within the tolerable level. The Bank exercises both top down and bottom up approaches in developing new modules, efficient and effective methods to mitigate future risks.

Prominence will be given to below mentioned categories for the improved measures.

- Observe trends in the economy which may demand new sectorial growth with regard to the amended policies of the Government. Additional risk management measures will be adopted if the Bank wants to penetrate into unknown territories.
- Risk monitoring tools to be developed with novel methodological ways to suit the future requirement of the business. Going forward the Bank will further strengthen the mechanisms to scale the entire risk spectrum by giving values to each risk. The aggregate amount of risk

RISK MANAGEMENT

will be ascertained by adding those values and the final outcome will be presented for the deliberation of Board Integrated Risk Management Committee regularly.

- To implement Social and Environment Management Policy in relation to the Bank's Credit Policy and Procedure will enrich the current credit review procedure covering the external factors/ events. Further, this will endorse the Bank as a good corporate citizen who strikes the balance between the triple bottom line People, Planet and Profits.
- Increase the frequency of monitoring to have a closer watch and screen to enrich the risk measurement methods to predict and address the threats of the economic turbulences and vulnerability of the market conditions with the heavy competition and squeezed margins.
- To fully automate the risk rating methodologies with increased number of attributes of identified factors which would improve the internal risk rating procedure
- To develop the front line staff by way of training programmes enhancing the capacity of the first line of defense. This measure will deploy better risk management methods with sophisticated employee engagement methods for front line risk identification, measurements and mitigation with greater accuracy.
- Increase the determination on the system security by way of implementation of base line security standards.

ROOTED IN TRUST

04 Governance

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CORPORATE GOVERNANCE

The Corporate Governance Framework of Pan Asia Banking Corporation PLC guides the Bank and drives towards progress by way of developing and implementing appropriate corporate strategies. The approach to governance is based on the belief that there is a link between high-quality governance and the creation of long-term stakeholder value. In pursuing the corporate objectives, the Bank is committed to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity and mutual respect.

The Board of Directors, led by the Chairman, is responsible for the governance of the Bank and developing effective Governance Framework to meet challenges both in the short and long term. The Board is committed to reviewing and improving the systems to provide transparency and accountability, and initiate transformational changes whenever necessary to ensure best practices are maintained and enhanced according to the principles of Corporate Governance.

The Board sets the tone at the top by promoting professional standards and corporate values that cascade to corporate management and other employees of the Bank. The codified policies, procedures and processes are some of the key mechanisms through which these standards and values are cascaded down to ensure adherence across the Bank. The Board is also supported by robust and independent risk, audit and compliance functions that provide effective oversight over the governance process.

Board Committees

The following Board committees are in place to assist the Board in fulfilling its governance responsibilities and the reports of the committees are given in the pages stated below:

Board Audit Committee - Pages 105 & 106.

Board Integrated Risk Management Committee - Page 107.

Board Human Resources and Remuneration Committee - Page 108.

Board Nomination Committee - Page 109.

Board Credit Committee - Page 110.

Board Strategic Planning Committee - Pages 111 & 112.

Board Related Party Transactions Review Committee- Page 113.

Major Steering Instruments on Governance

The following internal and external driven factors play a vital role in maintaining a robust governance structure within the Bank;

External

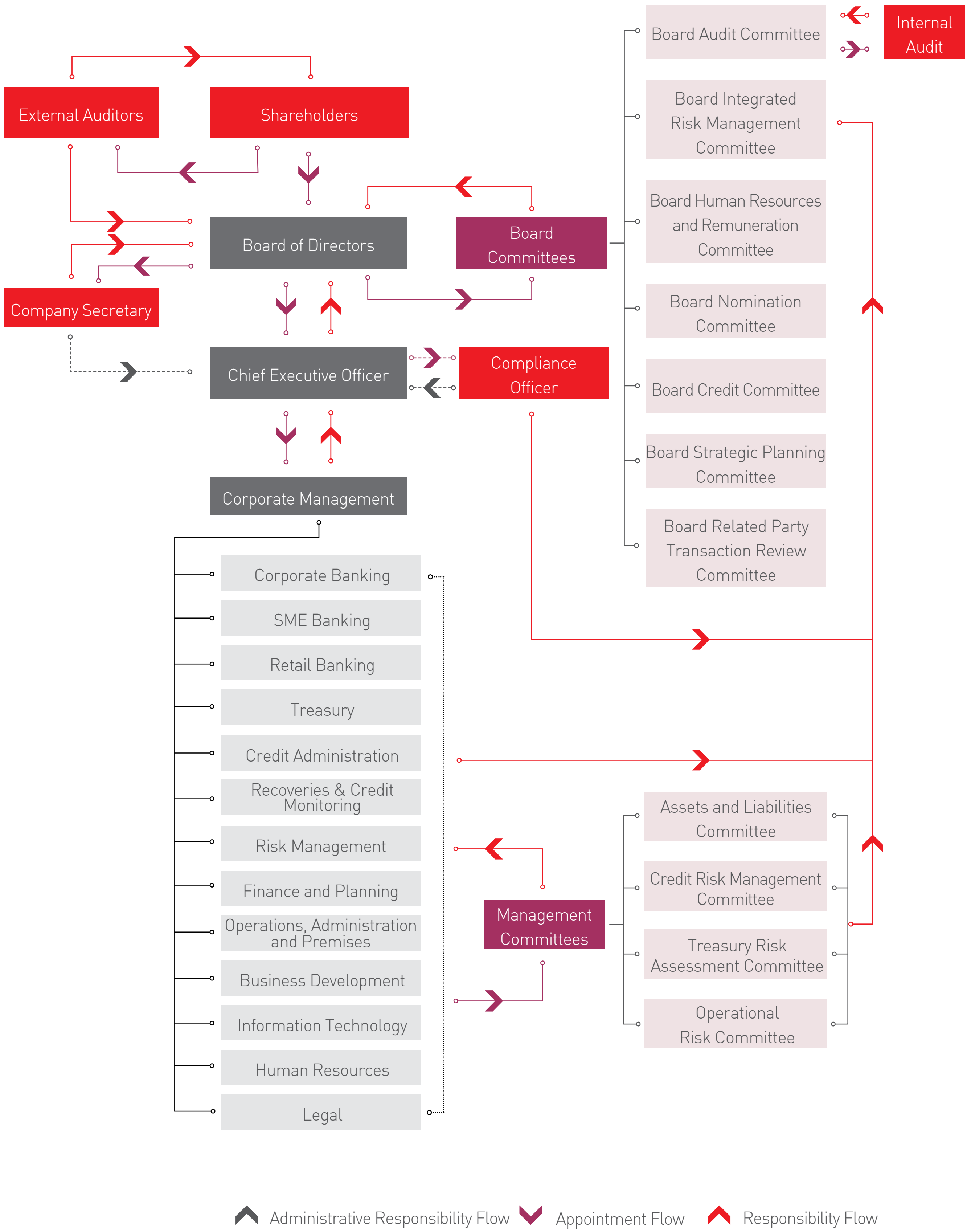
- Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks as amended subsequently
- Banking Act No. 33 of 1988 and Directions, Guidelines and Circulars issued under Banking Act
- Companies Act No. 07 of 2007
- Code of Best Practice on Related Party Transactions issued by Securities and Exchange Commission of Sri Lanka
- Listing Rules issued by Colombo Stock Exchange
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 as amended subsequently

Governance

- Articles of Association
- Code of Business Conduct & Ethics
- Communication Policy
- Operational Policies, Guidelines and Manuals
- Whistle Blowing Policy
- Risk Management Policies and Procedures
- Internal Control Procedures and Processes
- Anti-money Laundering/KYC Policies

Internal

GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE REPORT

Regulatory Framework

The Central Bank of Sri Lanka (CBSL) has issued Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (As amended subsequently) which the Banks have to comply with in view of enhancing effective Corporate Governance practices, transparency and accountability.

Listed Banks are exempted from complying with CSE the Listed Rules due to its compliance with the Corporate Governance Principles specified in Section 3 (1) to 3(8) of the Banking Act Direction No.11 of 2007 (as amended subsequently) on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka.

External Auditors' Review on Compliance with Direction No. 11 of 2007 on Corporate Governance

Messrs Ernst & Young, our external auditors annually carry out a review of the Bank's compliance with the Corporate Governance Principles specified in Section 3 (1) to 3 (8) of the Banking Act Direction No.11 of 2007 (as amended subsequently) in accordance with the Sri Lanka Standard on Related Services 4400 (SLSRS 4400) and provides a report of factual findings on the extent of Bank's compliance with the said Directions. The external auditors carried out this procedures in respect of the year 2018 as well and have issued a report on their review and factual findings on same.

External Auditors' Review on Board's Statement of Internal Controls over Financial Reporting

The Auditors were also engaged to carry out a review of the Board's Statement on Internal Controls relating to Financial Reporting System of the Bank based on Sri Lanka Standard on Assurance Engagements 3050 (SLSAE 3050) - Revised and their report is given in page 104 of the Annual Report.

Report on Degree of Compliance with Direction No.11 of 2007 on Corporate Governance and Subsequent Amendments

The following section summarises the Bank's degree of compliance with Corporate Governance principles specified in the Banking Act Direction No.11 of 2007 (as amended subsequently) on Corporate Governance for Licensed Commercial Banks in Sri Lanka and the action taken to uphold the good governance.

Section	Principle	Degree of Compliance	Remarks
3(1)	**The Responsibilities of the Board**		
3(1)(i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following.		
a.	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	Complied with	The Bank's strategic objectives and corporate values are incorporated in the Board approved Strategic Plan. These strategic objectives are communicated to relevant staff at regular briefing sessions and discussion meetings and then cascaded down to all levels. The corporate values which are derived from vision and mission statements are communicated to all staff via e-mails and at the various meetings and forums.

Section	Principle	Degree of Compliance	Remarks
b.	Approve the overall business strategy of the Bank including the overall risk policy, and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied with	The overall business strategies of the Bank set by the Board in consultation with Corporate Management are focused on promoting sustainability and profitable growth of the Bank. The Board approved strategic plan which contains measurable goals for 2018-2022 period is in place. The business strategy is reviewed on a quarterly basis with updates. The Board approved the annual budget 2019 which is derived from the Bank's strategic plan. Risk management policies and procedures are approved by the Board and monitored continuously. These are reviewed on an annual basis and revised on a need basis.
c.	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	Complied with	A stringent risk management process has been established covering a whole range of risks stemming from Credit, Market, Operational, Liquidity, Strategic, Information security and Compliance etc. and appropriate strategies have been adopted based on the risk appetite of the Bank. Further, appropriate risk culture has been promoted across the Business and other oversight functions ensuring their functions in line with the agreed risk tolerance.
d.	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Complied with	Reviewed Shareholder communication policy approved by the Board is in place.
e.	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with	The Bank has a separate Internal Audit Department which directly reports to the Board Audit Committee. The Board Audit Committee relies on the internal audit Department to determine the adequacy and the integrity of the Internal Control Systems and Management Information Systems.
f.	Identify and designate Officers Performing Executive Functions of Licensed Commercial Banks as referred to in the Banking Act Determination No. 03 of 2010 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks as 'Key Management Personnel' of the Bank.	Complied with	'Officers Performing Executive Functions' as referred to in the Banking Act Determination No. 03 of 2010 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks have been identified as 'Key Management Personnel' of the Bank.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
g.	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel.	Complied with	The Board shares its responsibilities as a team and depending on specific skills and expertise they are appointed to different Committees to manage the affairs of the Bank. Defined areas of authority, goals and targets have been approved by the Board. The responsibilities and authority of Chief Executive Officer and other Key Management Personnel are also defined.
h.	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy.	Complied with	Key Management Personnel are present or are called in for discussions at Board Meetings and Board committee meetings as and when the need arises to explain matters relating to their areas. The Affairs of the Key Management Personnel are monitored by the Board.
i.	Periodically assess the effectiveness of the Board Directors' own governance practices, including: i) the selection, nomination and election of Directors and Key Management Personnel ii) the management of conflicts of interests and iii) the determination of weaknesses and implementation of changes where necessary	Complied with	Nomination Committee recommends to the Board on selection, nomination and election of the Directors and the Board thereafter decides on the matter. Self assessment of the Directors are attended to by the Directors annually. This document is called 'Board performance evaluation checklist'. The Board assesses the effectiveness of its own governance practices on an annual basis.
j.	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied with	A succession plan for 'Key Management Personnel' is in place. However, this process will be further strengthened in future.
k.	Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with	The Board Committees on Integrated Risk Management, Related Party Transactions Review, Audit, Human Resources & Remuneration, Nomination, Credit and Strategic Planning, meet regularly and the Key Management personnel attend these meetings to review policies, establish communication lines and monitor progress towards corporate objectives. The minutes of these Committee meetings are tabled at the Board Meetings. The Members of the Corporate Management team attend Board Meetings by invitation to make presentations on their respective areas as an when required.

Section	Principle	Degree of Compliance	Remarks
l.	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with	The Board Secretary furnishes Directors a set of rules with regard to regulatory directions and requirements on their appointment. They are also briefed about developments in the regulatory environment at Board Meetings to ensure that their knowledge is updated regularly to facilitate effective discharge of their responsibilities. The Compliance Officer submits reports on regulatory requirements to the Board Integrated Risk Management Committee enabling them to identify the regulatory environment. The Chairman, CEO and Directors maintain a good relationship with the regulators with regard to strategic matters of the Bank while the Compliance Officer maintains effective relationship with the regulator with regard to all Compliance matters.
m.	Exercise due diligence in the hiring and oversight of External Auditors.	Complied with	The Board Audit Committee is responsible for the hiring and oversight of the external auditor. The audit committee Charter / Terms of reference approved by the Board specifies these requirements.
3(1)(ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions.	Complied with	The Chairman and the CEO are appointed by the Board. Functions and responsibilities of the Chairman and the CEO have been defined and approved by the Board.
3(1)(iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied with	12 Board Meetings were held during the year and the regulation has been complied with accordingly. The attendance of the Board and Committee meetings are given on page 101.
3(1)(iv)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with	Agenda, Minutes and Board Papers are forwarded to the Directors as per the Corporate Governance directive within the stipulated time frame, enabling Directors to submit their views, proposals and observations under any other business at Board Meetings.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
3(1)(v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board Meetings, reasonable notice may be given.	Complied with	Board Meeting Notice and Board Papers are circulated to Directors 7 days prior to the Board Meeting providing all Directors and opportunity to attend.
3(1)(vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' Meetings through an alternate Director shall, however, be acceptable as attendance.	Complied with	Board Meetings have been duly attended by all the Directors as identified in page 101.
3(1)(vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with	The Company Secretary has been appointed in line with the stipulated regulatory requirement.
3(1)(viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with	A Board approved policy in this regard is in place. All Directors have access to the advice and services of the Company Secretary.
3(1)(ix)	The Company Secretary shall maintain the Minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time, with reasonable notice by any Director.	Complied with	The Minutes of the Board Meetings are maintained by the Company Secretary. The Directors can inspect the Board Minutes as and when required.

Section	Principle	Degree of Compliance	Remarks
3(1)(x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board Meetings. Therefore, the Minutes of a Board Meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations (b) the matters considered by the Board (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and the Board resolutions	Complied with	The Board minutes contain a summary of data and information used by the Board in its deliberations, decisions and Board resolutions. The Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations. The Understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted too are contained in the Board minutes. The minutes and the Board papers are maintained to provide the details stipulated.
3(1)(xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/ their duties to the Bank.	Complied with	An approved Board procedure includes a provision to enable the directors to seek independent professional advice at the Bank's expense.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
3(1)(xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or Related Parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board Meeting, where independent Non - Executive Directors who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board Resolution in relation to which he/ she or any of his/ her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board Meeting.	Complied with	The Board procedure includes provisions to manage conflicts of interests of Directors. The Bank follows guidelines issued by the Director Bank Supervision with regard to Related Party transactions and directors abstain in voting and take part in discussions where issues or items pertaining to conflict of interest are discussed.
3(1)(xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied with	The Board has a formal schedule of mandatory matters specifically reserved for the Board, apart from the other Board Papers that are included in every Board meeting.
3(1)(xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	Complied with	The Bank is solvent and no situation arisen where its solvency has been in doubt. The Board is aware of the requirement to inform the Director Banking Supervision of the situation of the Bank prior to taking any decisions or action, if the Bank considers that the procedures to identify when the Bank is or is likely to be unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.
3(1)(xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with	The Bank is in compliance with the Capital Adequacy Ratio requirements stipulated by the Central Bank of Sri Lanka and other prudential grounds as at 31st December 2018.
3(1)(xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction.	Complied with	The Corporate Governance Report is published on pages 74 to 100 of Annual Report.
3(1)(xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied with	Self-assessment of each director is performed annually and filed with the Company Secretary.

Section	Principle	Degree of Compliance	Remarks
3(2)	**The Board's Composition**		
3(2)(i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with	8 Directors constitute the Board at present.
3(2)(ii)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with	The Company Secretary monitors the service period of Directors. There are no Directors serving for more than 9 years as at to date.
3(2)(iii)	An employee of a Bank may be appointed, elected or nominated as a Director of the Bank provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank	Complied with	7 out of 8 Directors are Non - Executive Directors as at date, hence, this does not exceed one-third of the number of Directors of the Board as identified in page 101.
3(2)(iv)	The Board shall have at least three Independent Non - Executive Directors or one third of the total number of Directors, whichever is higher. A Non – Executive Director shall not be considered independent if he/she:	Complied with	There are 3 Independent Non - Executive Directors on the Board at present as identified in page 101.
a.	has direct and indirect share holdings of more than 1 percent of the Bank.	Complied with	Currently, no Director holds more than 1% shareholding.
b.	currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 percent of the regulatory capital of the Bank.	Complied with	The Bank has not come across any situation as such during the year 2018.
c.	has been employed by the Bank during the two year period immediately preceding the appointment as Director	Complied with	The Bank has not come across any situation as such during the year 2018.
d.	has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a "Close relation" shall mean the spouse or a financially dependent child.	Complied with	The Bank has not come across any situation as such during the year 2018.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
e.	represents a specific stakeholder of the Bank.	Complied with	One Non Executive Director represented a specific stakeholder of the Bank as at the year end. However, he resigned from the Board subsequent to the year end.
f.	is an employee or a Director or a material shareholder in a company or business organisation: i) which currently has a transaction with the Bank as defined in Direction 3(7) of these Directions, exceeding 10 percent of the regulatory capital of the Bank, or ii) in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or iii) in which any of the other Directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 percent of regulatory capital in the Bank	Complied with	None of the Independent Non - Executive Directors meet the criteria of (i), (ii) & (iii) and Independent Non - Executive Directors have been duly identified.
3(2)(v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Complied with	The Company Secretary ensures that the Alternate Director appointed to represent an Independent Director meets the criteria applicable to an Independent Director.
3(2)(vi)	Non - Executive Directors shall be persons with credible track records and/ or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance and resources.	Complied with	The Board considers Nomination Committee recommendation prior to considering the appointment of Non - Executive Directors.
3(2)(vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non - Executive Directors.	Complied with	Required quorum is complied with.

Section	Principle	Degree of Compliance	Remarks
3(2)(viii)	The Independent Non – Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non - Executive Directors and Independent Non - Executive Directors in the annual Corporate Governance Report.	Complied with	Disclosed in page 101 of the Annual Report under "Present composition of Directors".
3(2)(ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied with	The Board and the Nomination Committee has a procedure in place.
3(2)(x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	Complied with	There were no Directors appointed under casual vacancies during the year 2018.
3(2)(xi)	If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders'	Complied with	All Director resignations and removals are duly communicated to the relevant regulatory authorities as per Colombo Stock Exchange regulations. Mr.Harris Premaratne and Mr. A. A. Wijepala retired from the Board upon reaching 70 years of age during the year. Mr. Jayaraja Chandrasekara, retired from the Board with effective from 12th February 2019.
3(2)(xii)	A Director or an employee of a Bank shall not be appointed, elected or nominated as a director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank	Complied with	None of the present Directors of the Bank act as a Director of another Bank. The Directors inform the Board if the Director concerned is appointed, elected or nominated as a Director of another Bank.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
3(3)	**Criteria to Assess the Fitness and Propriety of Directors**		
3(3)(i)	The age of a person who serves as Director shall not exceed 70 years.	Complied with	There are no Directors who are over 70 years of age. The Company Secretary maintains the records of the Directors.
3(3)(ii)	A person shall not hold office as a Director of more than 20 companies/ entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied with	As per the declarations provided by the Directors, no Director holds Directorships in more than 20 companies.
3(4)	**Management Functions Delegated by the Board**		
3(4)(i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with	All delegations have been done by the Board after due consideration.
3(4)(ii)	The Board shall not delegate to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with	All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions.
3(4)(iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with	The Board periodically reviews and approves the delegation arrangements in place and ensures that the extent of delegation addresses is the needs of the Bank whilst enabling the Board to discharge their functions effectively.
3(5)	**The Chairman and Chief Executive Officer**		
3(5)(i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with	The roles of Chairman and Chief Executive Officer are separated and not performed by the same individual.
3(5)(ii)	The Chairman shall be a Non - Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as 'the Senior Director' with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied with	Since the Chairman is only a Non-Executive Director, Mr. Mohan Abeynaike, Independent Non –Executive Director continued as the "Senior Director". Required Terms of Reference have been approved by the Board.

Section	Principle	Degree of Compliance	Remarks
3(5)(iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship including financial, business, family or other material/relevant relationship(s), if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with	The Directors' sign a declaration to this effect and there are no relationships reported.
3(5)(iv)	The Chairman shall: (a) provide leadership to the Board (b) ensure that the Board works effectively and discharges its responsibilities and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with	The Chairman is responsible for conducting of the Board meetings, preserving order and ensuring that the proceedings of the meetings are conducted in a proper manner.
3(5)(v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied with	The Company Secretary circulates a formal agenda prior to the Board Meeting. This agenda is approved by the Chairman of the Board.
3(5)(vi)	The Chairman shall ensure that all directors are properly briefed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with	The Chairman ensures that the Board is adequately briefed and informed regarding the matters arising at the Board. Board Papers are sent seven days prior to the meeting in order for Directors to request any other information if necessary. Management information is provided to Directors for the Board meeting and Committee meetings enabling them to assess the stability and performance of the Bank.
3(5)(vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied with	This requirement is addressed in the self evaluation process.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
3(5)(viii)	The Chairman shall facilitate the effective contribution of Non - Executive Directors in particular and ensure constructive relations between Executive and Non – Executive Directors.	Complied with	The Chairman ensures that the Non - Executive Directors actively contribute to make decisions at Board level.
3(5)(ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with	The Chairman is a Non - Executive Director and therefore does not get involved in executive functions.
3(5)(x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with	The Chairman communicates with the shareholders at the Annual General Meeting. All shareholders have access to the Company Secretary at any given time.
3(5)(xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	Complied with	The Chief Executive Officer functions as the apex executive in charge of the day to day management.
3(6)	**Board Appointed Committees**		
3(6)(i)	The Bank shall have at least four Board Committees as set out in Directions 3(6) (ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each Committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc. under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied with	The Board has established an Audit, Nomination, Human Resources & Remuneration, Integrated Risk Management, Credit, Strategic Planning and Related Party Transactions Review Committees. All Board Committees submit minutes to the Board. Each Committee report is published in the Annual Report on pages 105 to 113.
3(6)(ii)	**Audit Committee**		
a.	The Chairman of the Committee shall be an Independent Non - Executive Director who possesses qualifications and experience in accountancy and/ or audit.	Complied with	The Chairman of Audit Committee is an Independent Non-Executive Director and a Fellow of the Institute of Chartered Accountants of Sri Lanka whose qualifications and experience are disclosed in page 24 of the annual report.
b.	All members of the Committee shall be Non - Executive Directors.	Complied with	All four members of the Committee are Non Executive Directors.

Section	Principle	Degree of Compliance	Remarks
c.	The Committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes (ii) the implementation of the Central Bank of Sri Lanka (CBSL) guidelines issued to Auditors from time to time (iii) the application of the relevant accounting standards and (iv) the service period, audit fee and any resignation or dismissal of the Auditors; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied with	The Audit Committee has made it's recommendations on the following; (i) the appointment of the External Auditors and services to be provided are in compliance with the relevant statutes (ii) the implementation of the CBSL guidelines issued to Auditors from time to time (iii) the application of the relevant accounting standards (iv) the service period, audit fee and any resignation or dismissal of the Auditors. Further, the Committee ensures that the service period of the engagement of the External Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the Audit before the expiry of three years from the date of the completion of the previous term.
d.	The Committee shall review and monitor the external Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with	The Committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with Sri Lanka Auditing Standards.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
e.	The Committee shall develop and implement a policy on the engagement of an external Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an External Auditors' of non-audit services does not impair the external Auditors' independence or objectivity. When assessing the external Auditors' independence or objectivity in relation to the provision of non-audit services, the Committee shall consider (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/ or independence in the conduct of the audit resulting from the provision of such services by the External Auditors and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/ or independence of the External Auditors	Complied with	The Audit Committee Charter includes the specified policy requirements.

Section	Principle	Degree of Compliance	Remarks
f.	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including (i) an assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and the management's internal controls over financial reporting (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations and (iii) the co-ordination between firms where more than one audit firm is involved	Complied with	The nature and scope of the audit and related engagements are discussed at the Board Audit Committee meetings.
g.	The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the Bank's annual report and accounts and quarterly reports before submission to the Board, the committee shall focus particularly on (i) major judgemental areas (ii) any changes in accounting policies and practices (iii) significant adjustments arising from the audit; (iv) the going concern assumption and (v) the compliance with relevant Accounting Standards and other legal requirements	Complied with	The Board Audit committee has reviewed the Financial information of the bank, in order to monitor the integrity of the Annual and Quarterly Financial Statements prepared with disclosures and the significant financial reporting judgements contained therein. The review focuses on the following: - Major judgemental areas - Changes in accounting policies and practices - Significant adjustments arising from the audit - The appropriateness of the going concern assumption - Compliance with relevant accounting standards and legal requirements The committee makes their recommendations to the Board on the above on a quarterly basis.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
h.	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditors' may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied with	The Committee has met with the external auditors and discussed related matters in the absence of Key Management Personnel
i.	The Committee shall review the external Auditors' Management Letter and the management's response thereto.	Complied with	The Committee reviewed the external auditor's Management Letter and the management response thereto. The committee reviews the progress and the action plans of outstanding items on an ongoing basis.
j.	The Committee shall take the following steps with regard to the internal audit function of the Bank: (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function (v) Ensure that the Committee is appraised of resignations of senior staff members of the internal audit department including the Chief internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care	Complied with	Items (i) and (ii) - the Board Audit Committee review and monitors the internal audit function and progress of the annual audit plan. The annual plan is reviewed and approved at beginning of the year. Internal audit reports are discussed with the Audit Committee and necessary actions are taken at its monthly meetings. Item (iii) - Performance of the Head and Senior staff members of the Internal Audit Division are reviewed/ assessed annually. Item (iv) – The committee reviewed the appointments of senior staff to internal audit. During year there were no outsourced audit assignments. Item (v) - The Committee is appraised of resignations of senior staff members of the internal audit department. Item (vi) - The Internal audit function is an independent function with direct reporting to the Board Audit Committee.

Section	Principle	Degree of Compliance	Remarks
k.	The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied with	Major findings of internal investigations and management's responses thereto are considered by the Committee and also minuted.
l.	The Chief Financial Officer, the Chief Internal Auditors and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present	Complied with	The Chief Financial Officer, the Assistant General Manager-Internal Audit and representatives of external auditors normally attends monthly committee meetings. The CEO and the members of the Corporate and Senior Management attend meeting upon invitation. The Committee met with external auditors independently without the executive management being present on two occasions.
m.	The Committee shall have: (i) explicit authority to investigate into any matter within its Terms of Reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with	The Board Audit committee has (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.
n.	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with	The Audit Committee met 14 times during the year and the committee's conclusions are recorded in the minutes.
o.	The Board shall disclose in an informative way, (i) details of the activities of the Audit Committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings	Complied with	The details of the Committee are disclosed in the Annual Report, pages 105 & 106 Details of attendance by individual Directors in page 101 of the Annual Report.
p.	The Secretary of the Committee shall record and keep detailed Minutes of the Committee Meetings.	Complied with	The Secretary of the Committee is the AGM- Internal Audit who records and keeps Minutes of the Committee Meetings.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
q.	The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditors.	Complied with	The Whistle Blowing Policy was reviewed and approved by the Committee. The Board Audit Committee acts as the key representative body for overseeing the bank's relationship with external auditors.
3(6)(iii)	**Human Resources and Remuneration Committee**		
a.	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank	Complied with	The key functions of the Human Resources and Remuneration Committee are disclosed in Annual Report Page 108 under "Board Human Resources and Remuneration Committee Report".
b.	The Committee shall set goals and targets for the Directors, Chief Executive Officer and the Key Management Personnel.	Complied with	The goals and targets for the Chief Executive Officer and Key Management Personnel are documented. This process will be further strengthened in future. This requirement is not applicable for Non-Executive Directors.
c.	The Committee shall evaluate the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with	The Committee evaluates the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determines the basis for revising remuneration, benefits and other performance based incentives. This process will be further strengthened in future.
d.	The Chief Executive Officer shall be present at all meetings of the Committee, except when matters relating to the Chief Executive Officer are being discussed.	Complied with	The Chief Executive Officer attends all meetings and he shall be excused when matters relating to him being discussed.

Section	Principle	Degree of Compliance	Remarks
3(6)(iv)	**Nomination Committee**		
a.	The Committee shall implement a procedure to select/appoint new Directors, Chief Executive Officer and Key Management Personnel.	Complied with	Procedures for the selection/appointment of the Directors, CEO and KMPs are in place.
b.	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied with	The Committee considers and recommends the re-election of current Directors to the Board.
c.	The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Chief Executive Officer and the Key Management positions.	Complied with	The duly approved eligibility criteria for the selection(appointment or promotion) to the position of CEO and Key Management positions is in place
d.	The Committee shall ensure that Directors, Chief Executive Officer and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied with	The Director's and Chief Executive Officer's affidavits and the Declarations are tabled at the Nomination Committee prior to forwarding to Central Bank of Sri Lanka for approval to ensure that the Directors are fit & proper persons to hold office. The Nomination Committee ensures that all KMPs are fit and proper persons to hold office in line with the set criteria prior to appointment and necessary affidavits are forwarded to CBSL for approval.
e.	The Committee shall consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied with	Succession arrangements for retiring Board of Directors are considered as and when required. New requirements (additional or new expertise) for KMP positions are considered and recommended by the Committee. Succession arrangements for Key Management Personnel are in place. This process will be further strengthened in future.
f.	The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The Chief Executive Officer may be present at meetings by invitation.	Complied with	The committee is chaired by an Independent Non Executive Director and two Non Executive Directors. The Chief Executive Officer attends meetings by invitation.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
3(6)(v)	**Integrated Risk Management Committee (IRMC)**		
a.	The Committee shall consist of at least three Non - Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied with	The Committee consists of three Non-Executive Directors appointed by the Board, Chief Executive Officer and Chief Risk Officer. The Committee is supported by Chief Manager - Credit Risk, Senior Manger - Credit Risk, Senior Manager - Treasury Middle Office, Manager - Operational Risk, Manager - Integrated Risk, Information Security Officer and Chief Manager - Compliance. The Committee invites any Key Management Personnel for participation at the meetings depending on the subject matters in the agenda.
b.	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis.	Complied with	Continuous assessments and monitoring are being carried out on credit, market liquidity, operational and strategic risks, and other contingencies, based on pre-determined risk indicators and goals/ limits, reports are submitted to the Committee for deliberations and corrective actions if required.
c.	The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset and Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with	The Committee reviews reports and minutes submitted by the management committees such as Credit Risk Management Committee, Assets & Liabilities Committee, Treasury Risk Assessment Committee, and Operational Risk Committee against pre determined quantitative and qualitative risk limits.
d.	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied with	Risk indicators are reviewed against the risk goals and regulatory limits with adequate deliberations during the Committee meetings and corrective actions are initiated for any deviations.
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with	The Committee had four meetings during the year and deliberations are made on whole risk spectrum encountered by the Bank.
f.	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied with	The Committee has taken appropriate actions through Human Resources Department for any failures to identify and monitor specific risks in managing the business of the Bank. No such instances reported during the period under review.

Section	Principle	Degree of Compliance	Remarks
g.	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/ or specific directions.	Complied with	Risk assessment report along with the minutes of the each Committee meeting is placed before the Board at the Board Meeting immediately following the Committee meeting for deliberations and concurrence The Committee shall submit risk assessment report to the Board within 7 days of each Committee meeting going forward.
h.	The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied with	An independent compliance function is in place led by a dedicated Compliance Officer to assess and ensure that the Bank's business activities are complied with all laws, regulatory guidelines, internal policies and control procedures.
3(7)	**Related Party Transactions**		
3(7)(i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "Related Parties" for the purposes of this Direction (a) Any of the Bank's subsidiary Companies (b) Any of the Bank's associate companies (c) Any of the Directors of the Bank (d) Any of the Bank's Key Management Personnel (e) A close relation of any of the Bank's Directors or Key Management Personnel (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest	Complied with	A Board approved policy on Related Party transactions is in place to avoid any conflicts of interest that may arise from any transaction of the Bank with any person. The Board Related Party Transaction Review Committee had four meetings during the year and deliberations are made with the identified related party transactions in the presence of respective department heads.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
3(7)(ii) &(iii)	The Board shall ensure that the Bank does not engage in transactions with Related Parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business. In this context, "more favourable treatment" shall mean and include treatment, including the	Complied with	A formal policy to enhance the transparency of Related Party Transactions is put in place by Board of Directors. Steps have been taken by the Board to avoid any conflict of interest that may arise when transacting with 'related parties'. Further, the Board ensures that no related party benefits from favourable treatment. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to the similar transactions between the Bank and its unrelated customers. The Board Related Party Transaction Review Committee reviews related party transactions reported to the committee.
a.	Granting of "Total Net Accommodation" to Related Parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction (i) "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation (ii) The "Total Net Accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such Related Parties in the Bank's share capital and debt instruments with a maturity of 5 years or more		
b.	Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counter party.		
c.	Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties.		

Section	Principle	Degree of Compliance	Remarks
d.	Providing services to or receiving services from a Related-Party without an evaluation procedure.		
e.	Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with Related Parties, except as required for the performance of legitimate duties and functions.		
3(7)(iv)	The Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied with	Regulatory requirements for related party transactions are properly stipulated in the Related Party Policy document. This policy elaborates the approved securities and limits for such related parties. Any accommodation granted to related party is sanctioned by the Board of Directors with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation.
3(7)(v) a.	Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with	The Bank follows directions, guidelines and circulars issued by Central Bank of Sri Lanka.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
b.	Where such security is not provided by the period as provided in Direction 3(7) (v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.		
c.	Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.		
d.	This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.		
3(7)(vi)	A Bank shall not grant any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	Complied with	No accommodation has been granted to any employee of the Bank on more favourable terms unless under general staff loan scheme applicable for all employees of the Bank.
3(7)(vii)	No accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied with	A process is in place. No such instances noted during the period under review.

Section	Principle	Degree of Compliance	Remarks
3(8)	**Disclosures**		
3(8)(i)	The Board shall ensure that: (a) Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and (b) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English	Complied with	Annual Audited and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.
3(8)(ii)	The Board has made the following minimum disclosures in the Annual Report:		
a.	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Complied with	A statement to this effect is included in the following; Annual Report of the Board of Directors' on the Affairs of the Bank on pages 114 to 116. Directors' Responsibility for financial Reporting on page 120.
b.	A report by the Board on the Bank's internal control mechanism that confirms that the Financial Reporting System has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied with	The Directors' Statement on Internal Controls over financial reporting is included in the Annual Report 2018 on pages 102 & 103.
c.	The external Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after 31st December 2008.	Complied with	Assurance Report by auditors under Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 - Assurance Reports for Banks on Directors' Statement on Internal Controls has been obtained and included in the Annual Report 2018 on page 104.
d.	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank.	Complied with	Details of the Directors are given on pages 24 & 25 under profiles of the Directors. The aggregate value of Directors' transactions with the Bank has been disclosed in Note No. 49.4 to the Financial Statements on page 225. The aggregate value of the remuneration paid (salaries, fees and benefits) to the Board of Directors (including CEO) is disclosed in Note No. 49.3 to the Financial Statements on page 224.

CORPORATE GOVERNANCE

<table>
<tr><th>Section</th><th>Principle</th><th>Degree of Compliance</th><th>Remarks</th></tr>
<tr><td>e.</td><td>Total net accommodation as defined in 3(7) (iii) granted to each category of Related Parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.</td><td>Complied with</td><td><table><tr><th>Category of Related Party Transaction</th><th>Rs. Mn</th><th>%</th></tr><tr><td>Directors and Close Family Members</td><td>1.75</td><td>0.01</td></tr><tr><td>KMP and Close Family Members</td><td>67.72</td><td>0.53</td></tr><tr><td>Entities Controlled by Directors, Shareholder owing a Material Interest and Close Family Members</td><td>3,156.55</td><td>24.72</td></tr></table></td></tr>
<tr><td>f.</td><td>The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.</td><td>Complied with</td><td>The aggregate values of remuneration paid to Key Management Personnel (as per CBSL guidelines) during the year are as follows;
Short term Benefits - Rs. 144.02 Mn.

The aggregate value of transactions by Key Management Personnel with the Bank as at the year end are as follows;
Loans, Advances and Credit Card Balances - Rs. 57.22 Mn.
Deposits - Rs. 142.92 Mn</td></tr>
<tr><td>g.</td><td>The external Auditor's certification of the compliance with these Directions in the Annual Corporate Governance Reports.</td><td>Complied with</td><td>The Bank has obtained the certification of the external auditors on compliance with these Directions on Corporate Governance and relevant disclosures are included on page 122 of the Annual Report under 'Corporate Governance Report'.</td></tr>
<tr><td>h.</td><td>A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.</td><td>Complied with</td><td>A statement of Directors' Responsibility on Financial Reporting is given on page 120 and 122 clearly sets out the details of regarding compliance with prudential requirements, regulations, laws and internal controls. There were no instances of material non-compliance to report on corrective action taken during the year.</td></tr>
<tr><td>i.</td><td>A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.</td><td>Complied with</td><td>There were no significant supervisory concerns on lapses in the Bank's Risk Management or non compliance with this Direction that have been pointed out by the Director of Bank Supervision and requested by the Monetary Board to be disclosed to the public.</td></tr>
</table>

Directors' Meeting Attendance – 2018

Name of Director	Board		Board Audit Committee		Board Credit Committee		Board Integrated Risk Management Committee		Board Human Resources & Remuneration Committee		Board Nomination Committee		Board Strategic Planning Committee		Board Related Party Transactions Review Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
Dimuth Prasanna	12	12	-	-	14	13	04	04	05	05	01	01	-	-	-	-
Sarath Rangamuwa	12	12	13	12	14	14	-	-	-	-	-	-	04	04	-	-
Mohan Abeynaike	12	12	14	13	-	-	-	-	05	05	04	04	04	03	04	04
Takashi Igarashi	12	12	-	-	-	-	04	04	-	-	-	-	-	-	03	03
Toyohiko Murakami	12	12	14	08	-	-	-	-	-	-	-	-	-	-	-	-
Nihal Kekulawala	12	12	14	14	-	-	04	04	05	05	-	-	04	04	-	-
Aravinda Perera	12	12	-	-	14	13	-	-	-	-	04	04	04	02	-	-
Nimal Tillekeratne	12	12	14	14	14	14	04	04	05	05	04	04	04	04	04	04
Harris Premaratne	01	01	-	-	01	01	-	-	-	-	-	-	-	-	01	01
A.A. Wijepala	02	02	03	03	-	-	-	-	-	-	03	03	-	-	01	01
Jayaraja Chadrasekera	12	12	-	-	14	14	-	-	-	-	-	-	-	-	03	03

Present Composition of Directors

Name of the Director	Category
Dimuth Prasanna	Non Executive Director
Sarath Rangamuwa	Non Executive Director
Mohan Abeynaike	Independent, Non Executive Director
Takashi Igarashi	Independent, Non Executive Director
Toyohiko Murakami	Non Executive Director
Nihal Kekulawala	Independent, Non Executive Director
Aravinda Perera	Non Executive Director
Nimal Tillekeratne	Chief Executive Officer

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

In line with the Banking Act Direction No.11 of 2007, section 3(8)(ii)(b), and the principal D 1.5 of Code of Best Practice on Corporate Governance 2017 (Code), issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the Board of Directors presents this report on Internal Controls over Financial Reporting.

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Pan Asia Banking Corporation PLC, ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal controls over financial reporting taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls in place over financial reporting is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Boards' policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key Features of the process adopted in applying and reviewing the design and effectiveness of the Internal Control System over Financial Reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The Annual Audit Plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, Regulatory Authorities and the Management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on pages 105 & 106.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. In adopting Sri Lanka Accounting Standards comprising LKASs and SLFRSs, progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure were made whilst further strengthening of processes namely review and disclosures with regard to financial risk management, fair value and management information.
- The Board took necessary steps to implement the requirements of the Sri Lanka Accounting Standard - SLFRS 9 on Financial Instruments. The required models have been implemented and processes & controls have been designed

and also adequate awareness sessions have been conducted for key stakeholders. The Board will continuously strengthen processes and controls around management information systems and reports required for validation and compliance in line with the SLFRS 9.

The Board has taken into consideration of the SLFRS 16 - Leases which is effective from 1st January 2019, necessary steps are being taken to assess its impact on financial statements and to design suitable internal controls.

- The comments made by the External Auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors in 2018 in connection with the internal control system over financial reporting will be dealt with in the future.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The External Auditors, Messrs Ernst & Young, have reviewed the above Directors' Statement on Internal Controls over Financial Reporting included in the Annual Report of the Bank for the year ended 31st December 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Bank. Their Report on the Statement of Internal Controls over Financial Reporting is given on page 104 of this Annual Report.

By Order of the Board

Mohan Abeynaike
Chairman – Board Audit Committee

Dimuth Prasanna
Chairman

Nimal Tillekeratne
Director/Chief Executive Officer

Colombo, Sri Lanka
21st February 2019

EXTERNAL AUDITORS' ASSURANCE REPORT ON BANK'S INTERNAL CONTROL OVER FINANCIAL REPORTING

Building a better working world

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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF PAN ASIA BANKING CORPORATION PLC

Report on the Directors' Statement on Internal Control over Financial Reporting

We were engaged by the Board of Directors of Pan Asia Banking Corporation PLC ("the Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("the Statement") included in page 102 and 103 of the Annual Report for the year ended 31st December 2018.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibilities and Compliance with SLSAE 3050 (Revised)

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the institute of Charted Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control over Financial Reporting.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of Work Performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 (Revised) does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 (Revised) also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

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

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

Ernst & Young

21st February 2019
Colombo, Sri Lanka

BOARD AUDIT COMMITTEE REPORT

Composition of the Audit Committee

In accordance with the currently accepted best practices and Banking Act Direction No.11 of 2007, on Corporate Governance guidelines, the Board has formed the Audit Committee which comprises of the following Directors at the year end.

Mohan Abeynaike
Chairman, Independent Non - Executive Director/Senior Director

Toyohiko Murakami
Non - Executive Director

Nihal Kekulawala
Independent Non- Executive Director

Sarath Rangamuwa
Non-Executive Director
(Appointed w.e.f. 24th January 2018)

Mr. A.A.Wijepala, Independent Non - Executive Director retired from the Committee and the Board w.e.f. 09th March 2018. The Committee wishes to place on record its appreciation to Mr. A.A. Wijepala for his contribution to its deliberations while he served as a member.

The Chairman of the Committee, Mr. Abeynaike is an Independent Non - Executive Director and a Fellow of the Institute of Chartered Accountants of Sri Lanka.

Secretary

Assistant General Manager - Internal Audit functions as the secretary to the committee.

Meetings

The committee held 14 meetings during the period under review. The attendance of the committee members at each of these meetings are given on page 101 of the Annual Report. The committee has met with the external auditors independently twice within the year.

The Chief Executive Officer, Chief Risk Officer, Chief Financial Officer and Deputy General Manager – Branch Credit attend the meetings by invitation. Members of the Senior Management of the Bank were invited to participate at meetings as and when required.

Responsibilities and Functions

The Charter of the Board Audit Committee is approved by the Board and clearly defines the role and responsibilities of the Board Audit Committee and is periodically reviewed and revised by the Board of Directors. The Committee is responsible to the Board of Directors and reports its activities regularly.

The proceedings of the Audit Committee meetings are regularly reported to the Board of Directors.

The main objective of the Board Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities in financial reporting, internal controls, internal and external audits.

The Committee is empowered by the Board to:

- Monitor the integrity of the Financial Statements and review of significant reporting judgements contained therein to be in compliance with Sri Lanka Accounting Standards.
- Review the Interim (Quarterly) and Annual Financial Statements, Internal controls and Risk Management measures.
- Review the Bank's compliance with legal and regulatory requirements.
- Monitor and review the effectiveness of the internal audit function.
- Make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process.
- Ensure that Bank's policies are firmly committed to the highest standards of good Corporate Governance Practices and operations conform to the highest ethical standards, in the best interest of all stakeholders.

Activities

The committee carried out the following activities.

Financial Statements

The Committee reviewed :

- The effectiveness of the financial reporting system in place to ensure that information provided to the stakeholders is reliable and is in strict adherence and compliance with the requirements of Sri Lanka Accounting Standards (SLFRS/ LKAS) and disclosure requirements.
- The Quarterly and Annual Financial Statements of the Bank prior to approval by the Board.
- Considering the SLFRS 9 implementation the committee has discussed with the External Auditors to identify the key impact areas and the estimated impacts on the Bank's financial statements of the new standards.
- Assesses the future impact of the capital requirements and remedial measures to be taken
- Assessed the impact of the new tax regulations

Regulatory Compliance

The procedures in place to ensure compliance with mandatory banking and other regulatory requirements were under close scrutiny by the committee.

The committee continuously emphasised on upholding ethical values of the staff and has reviewed and revised the Whistle Blowers policy encouraging staff to report any suspected wrong doings in confidence to the committee.

BOARD AUDIT COMMITTEE REPORT

The committee has reviewed and revised the Audit Committee Charter and Internal Audit Manual and obtained approval of the Board.

The Committee has adopted a checklist to validate on a quarterly basis the committee's compliance with section 3 (6) (ii) of the Banking Act Direction No. 11 of 2007 on Corporate Governance.

Internal Audit

During the year under review, the Committee reviewed the independence, objectivity and performance of the Internal Audit Department and established a process for periodic assessment of the internal control systems. The annual audit plan for the year was prepared based on a Risk Based Planning methodology for risk assessment of auditable areas. The Committee regularly reviewed and monitored the internal audit coverage of the annual audit plan.

The Committee reviewed the findings of the internal audits completed, internal investigations performed and their evaluations of the Bank's Internal Control system including the internal controls over financial reporting presented together with the recommendations and Management responses thereto. Appropriate instructions were issued by the committee for the corrective actions to strengthen procedures and internal control & systems with a view to managing overall risk and improving efficiency and effectiveness of key processes.

The committee has reviewed all internal controls and ensured they provide adequate control over the business processes and effectively mitigate risk wherever it exists.

On periodic basis committee reviewed the status of implementation of audit recommendations and management rectification actions.

The Committee reviewed the performance appraisal of the AGM-Internal Audit and other senior staff of Internal Audit Department. Periodically the committee assessed the training & development and resource availability within Internal Audit Department to fulfil the audit plan.

External Audit

The Committee met with M/s Ernst & Young at the commencement of the Annual Audit to discuss the audit fee, scope, approach and methodology to be adopted. The Committee reviewed and ensured that the lead audit partner was rotated every five years in accordance with Banking Act Direction No.11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka. The Committee also invited the External Auditors to attend regular meetings and make presentation of their observations and recommendations.

The Committee has discussed all relevant matters arising from the interim and final audits, and the Auditors were provided with the opportunity to independently meet with the committee without the management being present and express their opinion on any matter. The auditors have assured that they have no cause to compromise their independence.

The Management Letter of the External Auditors and the responses of the management thereto were discussed, in the presence of relevant business heads and senior management along with the external auditor. The committee further followed up on the rectification actions taken by the management in improving the financial reporting based on the Management Letter of 2017.
The Committee reviewed the non-audit services provided by the Auditors to ensure that such services were not falling within the restricted services or provision of such service will not impair the External Auditors' independence and objectivity.

The Audit Committee having evaluated the independence and performance of the External Auditors has recommended to the Board of Directors that M/s Ernst & Young, Chartered Accountants, be reappointed as the auditors of the Bank for the financial year ending 31st December 2019, subject to the approval of the Shareholders at the Annual General Meeting.

Conclusion

The Board Audit Committee is of the view that adequate internal controls and procedures are in place at the Bank to provide reasonable assurance that its assets are safeguarded to ensure that the financial position and the results disclosed in the Audited Financial Statements are free from any material misstatements. The Committee also concluded that the internal audit function was effective.

On behalf of the Board Audit Committee

Mohan Abeynaike
Chairman
Board Audit Committee

Colombo, Sri Lanka
21st February 2019

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Composition of the Committee

The Board Integrated Risk Management Committee comprises of following Directors at the year end.

Nihal Kekulawala
Chairman, Independent Non - Executive Director

Takashi Igarashi
Independent Non - Executive Director

Dimuth Prasanna
Non - Executive Director

Nimal Tillekeratne
Director/Chief Executive Officer

In addition to the above members, the Committee comprises of Chief Risk Officer, Officers in charge of Credit Risk, Market Risk, Operational Risk, Integrated Risk and Information Security. The Committee invites Key Management personnel and other senior management personnel to attend the meetings depending on the subject matters under consideration in the agenda.

Secretary

Senior Manager - Credit Risk functions as the Secretary of the Committee.

Meetings

Meetings are conducted once in quarter and during the year four meetings were held. The attendance of the committee members at each of these meetings are given on page 101 of the Annual Report.

Responsibilities

The overall risk management is assigned to the Board Integrated Risk Management Committee of the Board of Directors which is an independent Committee as per the corporate governance rules and the guidelines on Integrated Risk Management Framework issued by the Central Bank of Sri Lanka. The main scope of the Committee is to review and monitor overall risk management policy framework of the Bank. It regularly reviews the key risk indicators under Credit, Market, Operational, Compliance, Reputational, Strategic, Baseline Security, Legal and other contingencies and monitors the risk goals and regulatory limits under each of these risk indicators.

Further, committee recommends risk management directives for the approval of the Board of Directors.

At the meetings, committee makes adequate deliberations to review achievement of set risk goals and progress made between the reporting period which is indicated in the risk dashboards. Significant and critical factors are discussed under the "Risk Heat Map". Recommended actions if any are initiated via circulation of meeting minutes among heads of the respective business units, operational and support units and head of each risk unit. Subsequent to each meeting, relevant minutes along with risk commentary are submitted to the Board of Directors for their review and guidance.

Functions of the Committee

In order to fulfill the review and monitoring requirements under the Integrated Risk Management Framework, the Committee carries out following functions:

- Regular review of Internal Capital Adequacy Assessment Process (ICAAP) and assessment of the Bank's business strategy, growth plans and governance ensuring risk based capital adequacy.
- Determine and review risk indicators and risk goals on a regular basis on Credit, Market, Operational and all other significant risk areas which the Bank is exposed to.
- Peruse and review activities and progress of under mentioned management committees set up for the management of major risks embedded in the day to day activities of the Bank.
  - i. Assets and Liabilities Committee (ALCO)
  - ii. Credit Risk Management Committee
  - iii. Operational Risk Management Committee
  - iv. Treasury Risk Assessment Committee
- Regular review and update of all policies relating to the risk management and introduction of new risk related policies and procedures.
- Recommendation of improvements to Bank's strategy for lending, business expansion and growth, and review mitigating factors for adverse impact on Bank's overall strategy.
- Extensive deliberation on potential risk arising from various risk drivers and take measures proactively.
- Review business continuity plan, business impact analysis and disaster recovery plan of the Bank.
- Evaluation of Borrower Risk Rating Migration Analysis in order to have better understanding on the movement of risk profiles of the borrowers over the period of time.
- Review of retail product limits taking into consideration of the latest market developments.
- Revamping stress testing policies with more appropriate variables in view of managing risks in a more integrated manner.
- Evaluate compliance function ensuring adherence of compliance requirements on time and controlling reputational risk of the Bank.

The Committee ensures that adequate mechanisms are in place to identify, transfer, manage and mitigate the risks identified and recognised as per the Bank's risk management policies and during the year, The Committee has reviewed the process of identification, evaluation and management of all risk indicators and set risk goals as per the risk appetite of the Bank.

On behalf of the Board Integrated Risk Management Committee

Nihal Kekulawala
Chairman
Board Integrated Risk Management Committee

Colombo, Sri Lanka
21st February 2019

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Composition of the Committee

The Board Human Resources and Remuneration Committee comprises of the following Directors at the year end.

Dimuth Prasanna
Chairman, Non - Executive Director

Mohan Abeynaike
Independent Non - Executive Director/ Senior Director

Nihal Kekulawala
Independent Non - Executive Director

Nimal Tillekeratne
Director/Chief Executive Officer

Profiles of the members are given on Pages 24 & 25 of the Annual Report.

The Chief Executive Officer is present at all meetings except when matters relating to the Chief Executive Officer are being discussed.

Secretary

The Company Secretary functions as the Secretary to the Committee.

Meetings

The committee held five meetings during the year. Attendance of the Committee members at each of these meetings are given on Page 101 of the Annual Report.

Functions and Responsibilities

- The committee shall determine the Bank's remuneration policy and its specific application to Directors, CEO and Key Management Personnel (KMPs)
- The committee shall decide salaries, allowances, other cash and non-cash benefits and incentives, including terminal benefits/ pension rights etc. for the CEO and KMPs
- Periodical review and evaluation of bank's Remuneration Policy against industry practice
- Approving performance goals (KPI) for CEO and KMPs and performance based incentive schemes
- Evaluating the accomplishment of set performance goals by CEO and KMPs and rewarding or giving feedback to them
- Approving and reviewing strategic Human Resource policies of the bank
- Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives

The Committee reports directly to the Board of Directors. The committee makes decisions on compensation and benefits in accordance with the Bank's overall compensation philosophy and strategy which strengthens the performance driven culture of our Bank.

On behalf of the Board Human Resources and Remuneration Committee

Dimuth Prasanna
Chairman
Board Human Resources and Remuneration Committee

Colombo, Sri Lanka
21st February 2019

BOARD NOMINATION COMMITTEE REPORT

Composition of the Committee

The Board Nomination Committee comprises of the following Directors at the year end.

Mohan Abeynaike
Chairman, Independent Non - Executive Director/Senior Director

Dimuth Prasanna
Non - Executive Director

Aravinda Perera
Non - Executive Director

Profiles of the members are given on Pages 24 & 25 of the Annual Report.

The Chief Executive Officer attends Meetings by invitation.

Secretary

The Company Secretary functions as the Secretary to the Committee.

Meetings

During the year 2018, the committee held four meetings. Attendance of the Committee members at each of these meetings is given on Page 101 of the Annual Report. The Committee reports directly to the Board of Directors.

Functions and Responsibilities

As per the Banking Act Direction No.11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by Central Bank of Sri Lanka, the committee adopted a Charter and is reviewed as and when required and approved by the Board of Directors. This includes the responsibilities and functions of the Committee which are as follows:

- The committee shall implement a procedure to select/appoint new Directors, CEO and key management personnel.
- The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the board's responsibilities.
- The committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and key management positions.
- The committee shall ensure that Directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in the Corporate Governance Directions issued by the Central Bank of Sri Lanka.
- The committee shall consider and recommend from time to time, the requirements of additional / new expertise and the succession arrangements for retiring Directors and key management personnel.
- The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. Minimum number of Directors in the committee to be 3 and the maximum 5.

On behalf of the Board Nomination Committee

Mohan Abeynaike
Chairman
Board Nomination Committee

Colombo, Sri Lanka
21st February 2019

BOARD CREDIT COMMITTEE REPORT

Composition of the Committee

The Board Credit Committee comprises of following Directors as at the year end

Dimuth Prasanna
Chairman, Non-Executive Director

Sarath Rangamuwa
Non - Executive Director

Aravinda Perera
Non - Executive Director

Nimal Tillekeratne
Director/Chief Executive Officer

Jayarajah Chandrasekara
Non - Executive Director
(Resigned from the committee w. e. f. 12th February 2019)

Mr. Harris Premaratne, Independent Non - Executive Director retired from the Committee and the Board on 28th January 2018.

The Chief Risk Officer is a member of the Committee. Corporate and Senior Management in charge of Corporate Banking, Branch Credit, Credit Risk, Credit Monitoring, Legal and Recoveries attend the meetings by invitation.

Secretary

Senior Manager - Credit Risk currently acts as the Secretary to the Committee.

Meetings

The Committee had 12 meetings during the year. The attendance of the committee members at each of these meetings are given on page 101 of the Annual Report. The minutes of each meeting were duly circulated among the committee members and the management for follow up actions and disbursement of credit as per the conditions stipulated by the Committee.

Responsibilities

The Committee derives its operating scope and authority from the Board of Directors with the following key responsibilities:

- Ensure a sound credit evaluation and granting process in the Bank.
- Maintain appropriate credit administration, credit control and monitoring processes.
- Ensure adequate measurement and controls over credit risk exposures.
- Identification, monitoring and administration over problematic credit facilities including watch listed and non performing advances.
- Proper evaluation of new lending proposals of high value that comes within the purview and authority of the Committee.
- Proper evaluation & managing of new lending opportunities and threats in the economy.
- Monitor the changes in the economic and operating environment of the Bank ensuring adequate controls in the lending book.
- Provide guidance and directives for credit origination.

All credit approvals by the Committee were subject to detailed deliberations among the members of the committee.

Functions of the Committee

The Committee carries out following functions in order to fulfill its duties and responsibilities:

- Review and sanction credit proposals which require the approval of the Committee as per the delegated lending authorities within the Bank.
- Review changes to the credit policy initiated by the management of the Bank and approve them or recommend them for the approval of the Board of Directors.
- Ensure compliance of lending activities with approved credit policies, statutory and regulatory requirements and guidelines.
- Review the credit portfolio through regular reports on new facilities granted, margin trading and share backed advances, advances to special segments, advances under special lending products, exposure to pawning and gold loans, watch listed accounts and monthly non performing advances report.
- Define credit approval framework and assign delegated approval limits for lending as per the credit policy of the Bank.
- Review and recommend credit proposals to the Board Related Party Transaction Review Committee or Board of Directors for which the Board approval is required as per Bank's credit policy and regulatory guidelines.
- Ensure credit risk exposures are kept within the risk appetite in order to maximise Bank's risk adjusted rate of return.
- Monitor on an ongoing basis, the Bank's credit portfolio quality, review periodic credit portfolio reports and assess the performance of the lending book.
- Review new lending products from a credit risk management perspective with appropriate controls to maintain the quality of the portfolio.
- Sanction papers via circulation depending on the urgency of the subject matters
- Review high risk exposures periodically and take corrective action keeping them within the risk tolerance of the Bank.

The Committee ensures that the Bank adheres to the Board approved credit policies and regulatory guidelines & directives when accommodating credit facilities and managing the lending book.

On behalf of the Board Credit Committee

Dimuth Prasanna
Chairman
Board Credit Committee

Colombo, Sri Lanka
21st February 2019

BOARD STRATEGIC PLANNING COMMITTEE REPORT

The Board Strategic Planning Committee of the Bank was established to assist the Board in setting strategic direction and defining the bank objectives to reach greater heights in the banking industry.

Despite the extreme volatility in the business environment, the Board understands that effective planning is of paramount importance in steering the bank towards its stated objectives. This is because the Board is well aware that excellent planning allows the Bank to align the objectives of the bank with that of its staff to create involvement, ownership and effective execution with minimum supervision.

The Board also considers the strategic planning as an effective control tool which supersede any other control measure because the actual performance is quarterly measured against the plan which also evolves with the rapid changes in the business environment, particularly in the technology, regulatory and monetary sectors. Besides, the Board also realises the significance of the plan and its periodic monitoring as a serious compliance requirement and is fully committed towards its delivery.

Composition of the Committee

The committee comprises of following Directors as at the year end.

Mohan Abeynaike
Chairman, Independent Non - Executive Director/Senior Director

Nihal Kekulawala
Independent Non - Executive Director

Aravinda Perera
Non - Executive Director

Sarath Rangamuwa
Non-Executive Director

Mr. A. A. Wijepala, Independent Non Executive Director retired from the committee and the Board on 9th March 2018. Chief Executive Officer and members of the Corporate and Senior Management attend meetings by invitation.

Secretary

The Chief Financial Officer acts as the Secretary to the Committee.

Meetings

The Committee met four times during the year. The attendance of the Committee members at each of these meetings are given on page 101 of the Annual Report.

Minutes of the Committee meetings are circulated to the Committee members by the Secretary and the confirmed minutes are submitted to the Board of Directors for concurrence.

Functions and Responsibilities

1) Approving the periodic strategic plan/significant amendments to the existing strategic plan and recommending same to the Board.

    a) Strategic direction and Strategic Thinking: Providing the strategic direction and strategic thinking of the Board to the management in the development and implementation of the Bank's strategic plan. The committee shall provide guidance to the management on competitive strategies to achieve the Bank's strategic objectives leading to the achievement of the mission and vision.

    b) Monitoring the strategic planning process: To oversee the strategy formulation process leading to preparation of strategic plan.

    c) Monitoring and control: Ensure post implementation reviews of the strategic initiatives are carried out every quarter in comparison to KPI's and provide advice on further improvements to strategies and alternative course of action on non-achievement of KPI's.

    d) Examining Key Strategies: Examine the effectiveness of key strategies for achieving the goals and objectives and guiding management towards implementation of strategic decisions taken by the Board.

    e) Creating a risk based culture and resilience to environmental changes: To advice on the possible impact of external environmental changes such as of regulatory, economic and political spheres and to propose alternative course of action to achieve objectives.

    f) Reviewing internal strengths, resources, capabilities and weaknesses of the Bank and to provide guidelines to the management.

2) Ensuring that the annual budget is prepared in line with the goals and objectives of the strategic plan and recommending the same to the Board.

3) Reviewing the actual performance against the strategic plan as well as the annual budget.

4) Reviewing the appropriateness of current Vision, Mission and strategic positioning of the Bank.

5) Approving all strategic investment decisions such as mergers and acquisitions and recommending the same to the Board.

6) Reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets.

BOARD STRATEGIC PLANNING COMMITTEE REPORT

Performance

The Committee reviewed the bank's performance against the strategic plan and the budget for year 2018 and discussed reasons for substantial deviations and directed management for remedial actions.

Annual Budget for the year 2019 was discussed & reviewed in detail and changes to be incorporated were recommended before submitting to the Board of Directors for their approval. During this process, capital remained the single most important limiting factor which hindered the bank's growth against its potential. Thus the Committee reviewed and took note of the bank's capital structure against its growth targets and recommended to the Board the need for Tier 2 capital infusion to stay the course of the growth set out in the strategic plan and the budget.

The Committee reviews its own performance, constitution and scope of work to ensure that it is operating smoothly and efficiently. Its scope also extends to making recommendations to the Board when the need arises.

On behalf of the Board Strategic Planning Committee

Mohan Abeynaike
Chairman
Board Strategic Planning Committee

Colombo, Sri Lanka
21st February 2019

BOARD RELATED PARTY TRANSACTION REVIEW COMMITTEE REPORT

The Bank constituted Board Related Party Transaction Review Committee to assist the Board to review all related party transactions performed by the Bank in compliance with the section 9 of the Colombo Stock Exchange listing rules. The committee constitutes of majority of Independent Directors of the Board.

Composition of the Committee

The Board Related Party Transaction Review Committee comprises of following Directors at the year end.

Mohan Abeynaike
Chairman, Independent Non-Executive Director/Senior Director
(Appointed as the Chairman w.e.f. 29th January 2018)

Takashi Igarashi
Independent Non - Executive Director
(Appointed w.e.f. 28th March 2018)

Nimal Tillekeratne
Director/Chief Executive Officer

Jayaraja Chandrasekera
Non - Executive Director
(Appointed w.e.f. 29th January 2018 & resigned from the committee w. e. f. 12th February 2019)

Mr. Harris Premaratne, former Chairman of the committee and Independent Non - Executive Director retired from the Committee and the Board on 28th January 2018 while Mr. A.A. Wijepala, Independent Non-Executive Director retired from the committee and the Board on 09th March 2018.

In addition to the above members, the committee comprises of Chief Risk Officer, Chief Financial Officer, Chief Compliance Officer and Senior Manager - Credit Risk The committee invites Key Management Personnel and other members of the senior management on need basis to get further clarifications on subject matters.

Secretary

Senior Manager - Credit Risk functions as the Secretary of the Committee.

Meetings

The Committee held four meetings during the period under review. All matters with regard to related party transactions have been reviewed and discussed with the participation of respective heads of the departments. Minutes of the meetings have been circulated among committee members and the confirmed minutes have been submitted to the Board of Directors for necessary action.

Functions and Responsibilities

The committee derives its operating scope and responsibilities from the Board of Directors and the charter document of the Board Related Party Transaction Review Committee, which is subject to periodic review by the Board of Directors, clearly defines the role and the responsibilities of the committee.

The mandate of the committee includes inter-alia the followings:

- To formulate and implement a well established procedure, which comprehensively adheres to regulatory requirement of monitoring of all related party transactions of the Bank.
- Independently review all accommodations to related parties and if necessary, provide comments/ observations to the Board of Directors prior to the final approval.
- Review all related party transactions in line with the regulatory requirements.
- Making immediate market disclosure on any applicable related party transactions as required under Section 9 of the Listing Requirements of the Colombo Stock Exchange
- Making appropriate disclosures in the annual report on related party transactions as per the regulatory guidelines.
- In the case of recurrent related party transactions, committee may set up guidelines for the Senior Management to follow up its ongoing dealings with Related Parties, subject to annual review of such guidelines and appropriateness of the transaction.

The Committee ensures that Bank had adheres to the Board approved charter document on the Related Party Transaction Review Committee and all relevant regulatory guidelines when dealing with the related parties of the Bank.

On behalf of the Board Related Party Transactions Review Committee

Mohan Abeynaike
Chairman
Board Related Party Transaction Review Committee

Colombo, Sri Lanka
21st February 2019

ANNUAL REPORT OF THE BOARD OF DIRECTORS' ON THE AFFAIRS OF THE BANK

Your Directors have pleasure in presenting to the members their report together with the Audited Financial Statements for the year ended 31st December 2018.

The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007, the Listing Rules of the Colombo Stock Exchange and the best accounting practices recommended by the Institute of Chartered Accountants of Sri Lanka and necessary disclosures in the best interest of stakeholders of the Bank.

General

Pan Asia Banking Corporation PLC, a Licensed Commercial Bank is listed on the Colombo Stock Exchange and was incorporated in Sri Lanka, as 'Pan Asia Bank Limited' on 06th March 1995 under the Companies Act No. 17 of 1982 and Licensed as a Commercial Bank under the Banking Act No. 30 of 1988 changed its name to 'Pan Asia Banking Corporation Limited' on 23rd April 2004 and has now been re-registered as per the requirement under the new Companies Act No. 07 of 2007 and changed its name to 'Pan Asia Banking Corporation PLC'.

The Report of the Board of Directors on the Affairs of the Bank and the Financial Statements were approved by the Board of Directors on the 21st of February 2019.

Principal Activities

The Bank's principal business activities are Commercial Banking and related financial services.

Profit and Appropriation

The Bank's profits and appropriations were as follows:

	2018 Rs. 000	2017 Rs. 000
Profit before Taxation	1,909,657	1,875,456
Taxation	(368,014)	(484,954)
Profit for the Year	1,541,643	1,390,502
Other Comprehensive Income	18,383	(30,547)
Retained Profit Brought Forward	6,050,894	4,754,101
SLFRS 9 - Day 1 Adjustment	(983,270)	-
Transfer to Reserve Fund	(77,082)	(69,525)
Realisation of Revaluation Reserve	6,821	6,363
Un-appropriated Profit to be Carried Forward	6,557,389	6,050,894

Financial Statements

The Financial Statements of the Bank are given on pages 130 to 228 of this Annual Report.

Income

The Bank's main income consists of interest on Loans and Advances, income from Investments and other Fee based income. The summarised income could be shown between the years as:

	2018 Rs. 000	2017 Rs. 000
Gross Income	21,672,193	17,684,672

Shareholders' Funds and Reserves

The Bank's total reserves as at 31st December 2018 stood at Rs.11,246,643,256/-. This comprises Statutory Reserve Fund of Rs. 451,188,593/-, Revaluation Reserve of Rs. 623,812,541/- and Retained Earnings of Rs. 6,557,388,818/-. The movement in Revaluation Reserve and Statutory Reserve Fund and are shown in Note 39 and 40 to the Financial Statements.

Auditors' Report

The auditors of the Bank are Messrs Ernst & Young, Chartered Accountants. Their report on the Financial Statements is given on pages 125 to 129. They come up for re-election at the Annual General Meeting, with the approval of the Board Audit Committee and the Board of Directors.

Accounting Policies

The accounting policies adopted in preparation of the Financial Statements are given on pages 134 to 154.

Directors' Interest Register

Under the provisions of Section 192 of the Companies Act No. 07 of 2007, the Interest Register is maintained by the Bank. The Directors have made the necessary declarations which are recorded in the Interest register and are available for inspection in terms of the Act. The particulars of the Directors' Interest in Contracts are given in pages 117 & 118 of the Annual Report.

Donations

The Board of Directors have not approved any donations during the year.

Directorate

The names of the Directors of the Bank during the period 01.01.2018 to date are given below and changes occurred in the composition of the Board during this period. The classification of Directors into 'Executive', 'Non - Executive' and 'Independent Non - Executive' Directors are given against the names as per the Central Bank of Sri Lanka (CBSL) mandatory rules on Corporate Governance under the Banking Act directions.

Dimuth Prasanna	Non - Executive Director since May, 2012. Appointed as 'Deputy Chairman' in September 2016 to January 2017 and as 'Chairman' in July, 2017.
Sarath Rangamuwa	Non - Executive Director since August, 2014. Appointed as 'Deputy Chairman' in January 2018.
Mohan Abeynaike	Independent Non - Executive Director since October, 2014. Appointed as the 'Senior Director' in February 2015.
Takashi Igarashi	Independent Non - Executive Director since October, 2012.
Toyohiko Murakami	Non - Executive Director since April, 2013.
Nihal Kekulawala	Independent Non - Executive Director since August 2016.
Aravinda Perera	Non - Executive Director since August 2017.
Nimal Tillekeratne	Director/Chief Executive Officer since April, 2017.
Harris Premaratne	Appointed as an Independent Non - Executive Director in January 2017 and as Deputy Chairman on 25th January 2017. Retired in January 2018 reaching 70 years of age.
A. A. Wijepala	Independent Non - Executive Director since May 2015. Retired in March, 2018 reaching 70 years of age.
Jayaraja Chandrasekera	Non - Executive Director since May 2015. Resigned w. e. f. 12th February 2019.

Stated Capital

The Stated Capital of the Bank as at 31st December 2018 is Rs. 3,614,253,304/-. The details are given in Note 38 to the Financial Statements.

Internal Controls

The Board of Directors have put in place an effective and comprehensive system of internal controls covering financial operations, compliance and risk management which are required to carry on the business of banking prudently and ensure as far as possible, accuracy and reliability of records.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1998 and amendments thereto and the Listing Rules of the Colombo Stock Exchange.

Re-elections

In terms of Article No's. 82 and 83 of the Articles of Association of the Bank, Takashi Igarashi and Toyohiko Murakami retire by rotation and being eligible offer themselves for re-election, on an unanimous recommendation by the Board of Directors.

In terms of Article 89 of the Articles of Association of the Bank no Directors were appointed under casual vacancies during the year 2018.

Directors' Interest

The Directors have no direct or indirect interest or proposed contract other than those disclosed.

The Directors have declared all material interest in contracts if any involving the Bank and have refrained in participating when decisions are taken.

Directors' Interest Register is given on pages 117 & 118 of the Annual Report.

Directors' Interest in Shares

	No. of Shares As at 31.12.2018	No. of Shares As at 01.01.2018
Dimuth Prasanna	34,801	34,801
Sarath Rangamuwa	-	-
Mohan Abeynaike	-	-
Takashi Igarashi	-	-
Toyohiko Murakami	-	-
Nihal Kekulawala	-	3,900
Aravinda Perera	-	-
Nimal Tillekeratne	-	-
Jayaraja Chandrasekera	100	100

External Auditors

In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of Messrs Ernst & Young Chartered Accountants, to the Bank is being proposed at the Annual General Meeting. Audit Fees and Non Audit Fees payable to Ernst & Young for the year under review amounted to Rs. 4,169,900/- and Rs. 1,253,879/- respectively.

ANNUAL REPORT OF THE BOARD OF DIRECTORS' ON THE AFFAIRS OF THE BANK

Corporate Governance

Since the Licensed Commercial Banks have been exempted from the Colombo Stock Exchange Corporate Governance Rules, the Bank has complied with the CBSL, Banking Act Directions on Corporate Governance and a detailed statement is given on pages 72 to 100.

Related Party Transactions

The Board confirms that section 9 of the Listing Rules of Colombo Stock Exchange has been complied with in respect of Related Party Transactions.

The Board further confirms that the Bank has not been engaged in transactions with any related party in a manner that would grant such party a 'more favourable treatment' than it is accorded to other similar unrelated parties.

Capital Expenditure

Expenditure on Property, Plant & Equipment at cost amounted to Rs. 104,737,826/- during 2018, details of which are given in Note 28 to the Financial Statements. Expenditure on Intangible Asset at cost amounted to Rs. 55,063,651/- during 2018, details of which are given in Note 29 to the Financial Statements.

Statutory Payments

The Directors are satisfied to the best of their knowledge and belief, that statutory payments to all authorities have been paid up to date, on a timely basis.

Shareholding

The number of registered shareholders of the Bank as at 31st December 2018 was 4,219 compared to 4,220 as at 31st December 2017. The schedule indicating the shareholder's analysis is on pages 265 to 267.

Debentures

The details of all Debentures of the Bank are given in Note 37 to the Financial Statements.

Register of Directors and Secretaries

The Bank maintains a Register of Directors and Secretaries which contains the relevant information of the Board of Directors and the Company Secretary.

Board Committees

In keeping line with the Corporate Governance rules, transparency and accountability, the Board has appointed the required Board Committees and the composition is given in the Governance report.

New Branches

No branches were opened during the year under review. Total number of branches stood at 85 at the end of 2018.

Provision for Taxation

Taxable income for the year was charged at 28% in accordance with Income tax legislations. Deferred tax was calculated based on the Balance Sheet Liability Method in accordance with Sri Lanka Accounting Standards.

The Bank is also liable for VAT on Financial services at 15% and NBT on Financial services at 2%. Further, the Bank is liable for Debt Repayment Levy (DRL) w.e.f. 1st October 2018. Further, the Bank is liable to pay Crop Insurance Levy at 1% on Profit after Tax.

Annual General Meeting

In complying with the good governance practices, the Annual Report of the Bank is dispatched to Colombo Stock Exchange and shareholders as per the regulatory requirements after the end of the financial year and completion of the audit.

The Annual General Meeting will be held at "The Kingsbury Hotel" on 29th March 2019. The Notice of Meeting can be found on page 275.

Going Concern

The Directors after making necessary inquiries and reviews including reviews of the Bank's ensuing year budget for capital expenditure requirements, future prospects and risk and cash flows have a reasonable expectation that the Bank has adequate resources to continue operations in the foreseeable future.

For and on behalf of the Board of Directors

Dimuth Prasanna
Chairman

Sarath Rangamuwa
Deputy Chairman

Nimal Tillekeratne
Director/Chief Executive Officer

N Fernando

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
21st February 2019

DIRECTORS' INTEREST REGISTER

Director's / Company Name	Relationship	Type of Asset/Liability	Balance Outstanding as at 31.12.2018 (Rs.)
Dimuth Prasanna			
Grandmark (Pvt) Ltd	Chairman	Deposits	46,357
Wise Property Solutions (Pvt) Ltd	Managing Director	Deposits	24,550
Royal Ceramics Lanka PLC	Director	Deposits	27,264,095
		Loans and Advances	34,891
Royal Porcelain (Pvt) Ltd	Director	Deposits	135,215
Rocell Bathware Ltd	Director	Deposits	425,681
Delmege Forsyth & Co. (Shipping) Ltd	Director	Deposits	37,726
Country Energy (Pvt) Ltd	Director	Deposits	61,612
La Fortresse (Pvt) Ltd	Director	Deposits	21,251
Delmege Insurance Brokers (Pvt) Ltd	Director	Deposits	17,289,405
Lewis Brown Air Services (Pvt) Ltd	Director	Deposits	3,695,646
Delmege Aviation Services (Pvt) Ltd	Director	Deposits	662,063
Sarath Rangamuwa			
Vallibel Finance PLC	Managing Director	Deposits	1,491,310,351
		Loans and Advances	586,586,427
Takashi Igarashi			
NWS Holdings (Pvt) Ltd	Director	Deposits	486
NWS Management Services (Pvt) Ltd	Director	Deposits	3,660,708
Prime Ocean Foods (Pvt) Ltd	Director	Deposits	35,133
Cey Agri Plantations (Pvt) Ltd	Director	Deposits	117
Sushiba Samurai (Pvt) Ltd	Director	Deposits	53,769
Toyohiko Murakami			
Bansei Holdings LK (Pvt) Ltd	Chairman	Deposits	351,507,219
Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman	Deposits	66,522,404
Bansei Securities Capital (Pvt) Ltd	Director	Deposits	103,274,451
		Repo Borrowings	54,035,507
		Loans and Advances	1,210,049
Vallibel Finance PLC	Director	Deposits	1,491,310,351
		Loans and Advances	586,586,427
Bansei & NWS Consultancy (Pvt) Ltd	Director	Deposits	20,625
Hikkaduwa Hotel Holdings (Pvt) Ltd	Director	Deposits	5,052,511
Bansei Resorts Bentota (Pvt) Ltd	Director	Deposits	608,229
B R B Holidays (Pvt) Ltd	Director	Deposits	115,249
BHLK Investments (Pvt) Ltd	Director	Deposits	351,573
Wakana JPN (Pvt) Ltd	Director	Deposits	2,415,008
Wakana Holidays (Pvt) Ltd	Director	Deposits	476,777

DIRECTORS' INTEREST REGISTER

Director's / Company Name	Relationship	Type of Asset/Liability	Balance Outstanding as at 31.12.2018 (Rs.)
Nihal Kekulawala			
Lanka Walltiles PLC	Director	Deposits	180,339
		Loans and Advances	5,505
Continental Insurance Lanka Ltd	Director	Deposits	250,456,056
AMW Capital Leasing and Finance PLC	Director	Deposits	344,553
Aravinda Perera			
Royal Ceramics Lanka PLC	Director	Deposits	27,264,095
		Loans and Advances	34,891
Hayleys PLC	Director	Deposits	28,093
Royal Porcelain (Pvt) Ltd	Director	Deposits	135,215
Rocell Bathware Ltd	Director	Deposits	425,681

OTHER DIRECTORSHIPS

Dimuth Prasanna
Chairman

	Company Name	Position
1.	Grandmark (Pvt) Ltd	Chairman
2.	Wise Property Solutions (Pvt) Ltd	Managing Director
3.	Royal Ceramics Lanka PLC	Director
4.	Royal Porcelain (Pvt) Ltd	Director
5.	Rocell Bathware Ltd	Director
6.	Delmege Forsyth & Co. (Shipping) Ltd	Director
7.	Country Energy (Pvt) Ltd	Director
8.	La Fortresse (Pvt) Ltd	Director
9.	Delmege Forsyth & Co. (Exports) (Pvt) Ltd	Director
10.	Delmege Insurance Brokers (Pvt) Ltd	Director
11.	Rocell Properties Ltd	Director
12.	Delmege Coir (Pvt) Ltd	Director
13.	Delmege Freight Services (Pvt) Ltd	Director
14.	Delmege Air Services (Pvt) Ltd	Director
15.	Lewis Brown Air Services (Pvt) Ltd	Director
16.	Lanka Tiles PLC	Alternate Director
17.	Delmege Aviation Services (Pvt) Ltd	Director

Sarath Rangamuwa
Deputy Chairman

	Company Name	Position
1.	Vallibel Finance PLC	Managing Director
2.	Hunas Falls PLC	Director
3.	Finance House Consortium (Pvt) Ltd	Director

Mohan Abeynaike
Senior Director

	Company Name	Position
1.	Asia Pacific Investments (Pvt) Ltd	Chairman
2.	Asia Pacific Films (Pvt) Ltd	Director

Takashi Igarashi
Director

	Company Name	Position
1.	Ramboda Falls Hotels PLC	Chairman
2.	NWS Holdings (Pvt) Ltd	Director
3.	NWS Management Services (Pvt) Ltd	Director
4.	Prime Ocean Foods (Pvt) Ltd	Director
5.	Cey Agri Plantations (Pvt) Ltd	Director
6.	Sushiba Samurai (Pvt) Ltd	Director

Toyohiko Murakami
Director

	Company Name	Position
1.	Bansei Holdings LK (Pvt) Ltd	Chairman
2.	Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman
3.	Bansei Securities Capital (Pvt) Ltd	Director
4.	Vallibel Finance PLC	Director
5.	Bansei & NWS Consultancy (Pvt) Ltd	Director
6.	Hikkaduwa Hotel Holdings (Pvt) Ltd	Director
7.	Bansei Resorts Bentota (Pvt) Ltd	Director
8.	B R B Holidays (Pvt) Ltd	Director
9.	Bentota Club Villa (Pvt) Ltd	Director
10.	BHLK Investments (Pvt) Ltd	Director
11.	Wakana JPN (Pvt) Ltd	Director
12.	Wakana Holidays (Pvt) Ltd	Director

Jayaraja Chandrasekera (Resigned w. e. f. 12th February 2019)
Director

	Company Name	Position
1.	Zenith BPO (Pvt) Ltd	Director
2.	E M L Consultants (Pvt) Ltd	Director

Nihal Kekulawala
Director

	Company Name	Position
1.	Lanka Walltiles PLC	Director
2.	Kassapa Leisure Ltd	Director
3.	Continental Insurance Lanka Ltd	Director
4.	AMW Capital Leasing and Finance PLC	Director
5.	Imani Holdings (Pvt) Ltd	Director
6.	Lanka Ventures PLC	Director
7.	LVL Energy Fund Ltd	Director
8.	Lanka Ceramics PLC	Director
9.	Softlogic Holdings PLC	Director
10.	Jayscope (Pvt) Ltd	Director

Aravinda Perera
Director

	Company Name	Position
1.	Royal Ceramics Lanka PLC	Managing Director
2.	Singer Finance Lanka PLC	Chairman
3.	Hayleys PLC	Director
4.	Hayleys Advanties Ltd	Director
5.	Hayleys Aventura (Pvt) Ltd	Director
6.	Fentons Ltd	Director
7.	Royal Porcelain (Pvt) Ltd	Director
8.	Rocell Bathware Ltd	Director
9.	Snaps Residencies (Pvt) Ltd	Chairman

*The above Directorships are as at 31st January 2019.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors in relation to the Financial Statements of the Bank prepared in accordance with the Provisions of the Companies Act No. 07 of 2007 is set out in the following statements. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the External Auditors given on pages 125 to 129 of the Annual Report.

In terms of Sections 150 (1) and 151 (1) of the Companies Act No. 07 of 2007, the Directors of the Bank are responsible for ensuring that the Bank prepares the Financial Statements that gives a true and fair view of the state of affairs of the Bank as at the date of the Statement of Financial Position and the profit of the Bank for the financial year ended on the date of the Statement of Financial Position and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at 31st December 2018, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the Bank give a true and fair view of;

a) the state of affairs of the Bank as at the date of the Statement of Financial Position and

b) the profit of the Bank for the financial year ended on the date of the Statement of Financial Position.

The Financial Statements of the Bank have been certified by the Bank's Chief Financial Officer, the person responsible for their preparation, as required by the Act. Financial Statements of the Bank have been signed by the Chairman, the Deputy Chairman, the Chief Executive Officer and the Company Secretary of the Bank on 21st February 2019 as required by the 150 (1) of the Companies Act No. 07 of 2007.

Under 148 (1) of the Companies Act, it is the overall responsibility of the Directors to oversee and ensure to keep proper accounting records which correctly record and explain the Bank's transactions with reasonable accuracy at any time and to enable the Directors to prepare Financial Statements, in accordance with the said Act and also to enable the Financial Statements to be readily and properly audited.

The Directors in preparing these Financial Statements are required to ensure that;

I. The appropriate accounting policies have been selected and applied in a consistent manner and material departures have been disclosed and explained if any.

II. The judgements and estimates that are reasonable and prudent are made.

III. All applicable accounting standards, as relevant, have been followed.

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements. The Financial Statements prepared and presented in the report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and the Continuing Listing Rules issued by the Colombo Stock Exchange.

In view of this Directors have taken adequate effort on inspecting financial reporting system through Audit Committee Meetings and granting approvals for issuing of interim Financial Statements.

The Directors have also instituted an effective and comprehensive system of internal controls. This comprises internal checks, internal audits and the whole system of financial and other controls required to carry on the banking business in an orderly manner, safeguard assets, prevent and detect frauds and other irregularities and secure as far as practicable, the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2018 is given on pages 102 & 103 of the Annual Report, "Directors' Statement on Internal Controls Over Financial Reporting". External Auditors' Assurance Report on the Bank's Internal Controls Over Financial Reporting is given on page 104 of the Annual Report.

The Bank's External Auditors, Messrs Ernst and Young carried out reviews and sample checks on the system of Internal Controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them together with all financial records, related data and minutes of shareholders' and Directors meetings and expressed their opinion which appears as reported by them on pages 125 to 129 of this Annual Report.

The Directors to the best of their knowledge are satisfied that all statutory payments in relation to all regulatory and statutory authorities which were due and payable by the Bank were paid, or where relevant, provided for.

The Directors of the Bank are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board

N Fernando

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
21st February 2019

CEO'S AND CFO'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Financial Statements of Pan Asia Banking Corporation PLC ("the Bank") for the year ended 31st December 2018 are prepared and presented in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, Companies Act No.07 of 2007, Sri Lanka Accounting and Auditing Standards Act No.15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations, and Guidelines issued by the Central Bank of Sri Lanka, and the Listing Rules of the Colombo Stock Exchange. The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank. There are no material departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The significant accounting policies and estimates that involved a high degree of judgement and complexity were discussed with the Audit Committee and External Auditors. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Audit Department has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. Further the Board assessed the effectiveness of the Bank's Internal Controls over Financial Reporting during the year ended 31st December 2018, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 102 & 103 in the Annual Report, the "Directors' Statement on Bank's Internal Controls over Financial Reporting". "External Auditors' Assurance Report on the Bank's Internal Controls over Financial Reporting" is given on page 104 of the Annual Report.

The Financial Statements of the Bank were audited by Messrs Ernst & Young, Chartered Accountants, the independent External Auditors. Their report is given on pages 125 to 129 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the independent External Auditors to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee approves the audit and non audit services provided by External Auditors, Messrs Ernst & Young, in order to ensure that the provision of such services does not impair independence of the External Auditors and does not contravene the guidelines issued by Central Bank of Sri Lanka on permitted non-audit services.

The Bank has taken appropriate action to implement New Sri Lanka Accounting Standards on due dates and all the processes are in place to address the requirements of the new Sri Lanka Accounting Standards.

We confirm to the best of our knowledge;

- The Bank has complied with all applicable laws, regulations and prudential requirements and in the opinion of the Bank's legal council, the litigations which are currently pending will not have a material impact on the reported financial results or future operations of the Bank.

- All taxes, duties, levies and all statutory payments by the Bank and all contributions, levies and taxes paid on behalf of and in respect of the employees of the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.

Nimal Tillekeratne
Director/Chief Executive Officer

Lalith Jayakody
Chief Financial Officer

Colombo, Sri Lanka
21st February 2019

BANK'S COMPLIANCE WITH PRUDENTIAL REQUIREMENTS

Pan Asia Bank conducts its business in accordance with the laws and regulations imposed by the regulatory authorities in line with the Bank's internal polices and codes of conduct. Compliance risk is the risk arising out of non- compliance with applicable laws, regulations, code of conduct and standard of best practice. This may result in regulatory sanctions, material financial loss or reputation loss to the Bank.

The Compliance Unit

The Compliance Unit plays a vital role in mitigating the compliance risk arising out of the day to day operations. The unit consistently assesses the Bank's compliance with laws, regulations, and statutory guidelines issued and also the internal controls and policies. The unit functions independently and is headed by the Compliance Officer who directly reports to the Board Integrated Risk Management Committee (BIRMC).

The Bank's Compliance procedures and guidelines are clearly set out in the Board Approved Compliance Policy. The Compliance Policy communicates the Bank's compliance philosophy, the basic principles governing the compliance function, as well as the broad structure and processes to ensure that Compliance Risks are addressed adequately and in a timely manner, by the relevant sections within the Bank.

Monitoring regulatory requirements under Know Your Customer (KYC), Anti Money Laundering (AML), Exchange control and FACTA are some of the key functions carried out by the Unit. Disseminating regulatory/internal requirements to business units for embedding same with its operations and ensuring they operate within the boundaries set by the regulator and the Bank.

Compliance Reporting

The compliance unit periodically prepare a detailed report, based on the sign offs given by the heads of all business units and branches on statutory and mandatory reporting requirements and the Bank's level of compliance to the Board Integrated Risk Management Committee (BIRMC) on a quarterly basis.

The Compliance Certificate includes,

- Significant changers to/Directions / new regulations
- Compliance monitoring on regulatory and AML requirements
- Significant non compliance events. Regulatory/Potential breaches
- Training/awareness undertaken and/or identification of training needs.

Compliance Culture

The Compliance Unit strives to instill an organisation wide compliance culture emphasising standards of honesty and integrity. Training programmes are carried out for all staff periodically to ensure that all employees are adequately aware of the Bank's compliance requirements, and procedures. Further all newly recruited staff members are introduced to the Banks compliance processes during the induction.

Anti Money Laundering (AML) Compliance

The Bank has established a sound framework for AML compliance based on relevant laws enacted by the Government of Sri Lanka to combat money laundering/terrorist financing and in line with the rules governing the conduct of all account relationships issued by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka.

A separate policy for AML has been approved by the Board of Directors and is reviewed periodically, while the Compliance Unit carries out sample testing bank-wide to ensure adherence.

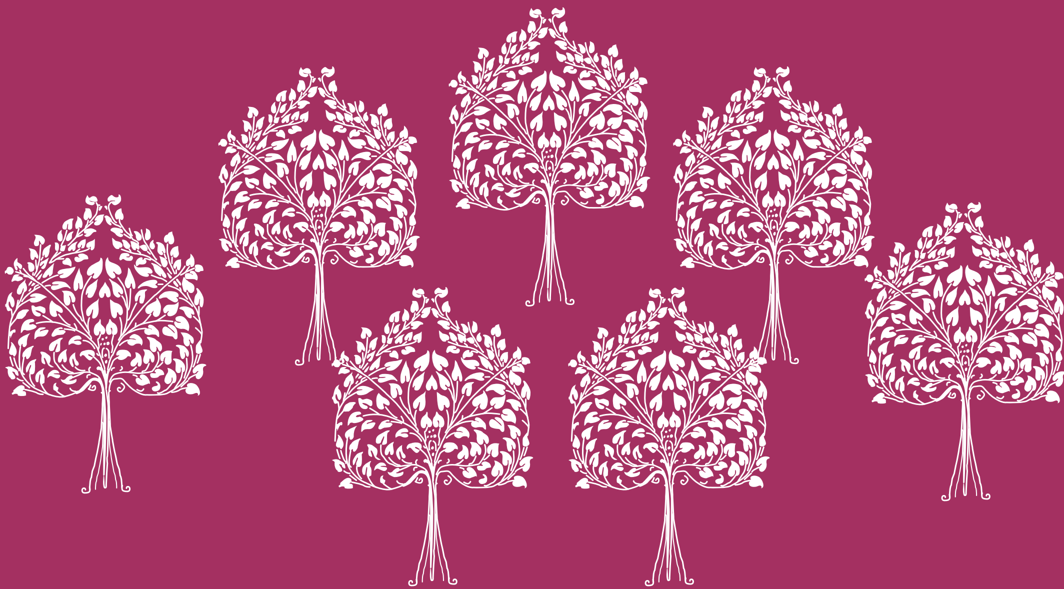
The Bank's AML Policy establishes standards of AML compliance which applies to all branches/departments and ensures strict compliance with all existing laws and regulatory requirements.

The Bank takes all reasonable steps to verify the identity of our customers in accordance with the directions issued by the FIU. Systems are also in place to ensure that Know Your Customer (KYC) and Customer Due Diligence (CDD) information is collected and kept up-to date and that identification details are updated when changes occur. Accordingly accounts are categorised as High, Medium and Low risk and a higher level of due diligence and monitoring is carried out in high risk areas.

Monitoring and reporting of suspicious transactions which include large and structured transactions above a specified threshold as per applicable regulatory and internal guidelines is also carried out.

New Product Development Framework

All new products and procedures are carefully checked to ensure they comply with the regulatory requirements prior to approval and launch. All operating instructions for various activities, the Bank ensures that they are reviewed and signed off by Compliance, Risk Management, Legal, Finance and the Internal Audit departments.



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05 Financial And Investor Information

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FINANCIAL CALENDAR

2018	
1st Quarter Unaudited Interim Results 2018	May 2018
2nd Quarter Unaudited Interim Results 2018	August 2018
3rd Quarter Unaudited Interim Results 2018	November 2018
4th Quarter Unaudited Interim Results 2018	February 2019
Annual Report for Year 2018	March 2019
24th Annual General Meeting	March 2019

2019	
1st Quarter Unaudited Interim Results 2019	May 2019
2nd Quarter Unaudited Interim Results 2019	August 2019
3rd Quarter Unaudited Interim Results 2019	November 2019
4th Quarter Unaudited Interim Results 2019	February 2020
Annual Report for Year 2019	March 2020
25th Annual General Meeting	March 2020

INDEPENDENT AUDITORS' REPORT

EY
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TO THE SHAREHOLDERS OF PAN ASIA BANKING CORPORATION PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Pan Asia Banking Corporation PLC ("the Bank"), which comprise the statement of financial position as at 31st December 2018, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies on pages 130 to 228.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Bank as at 31st December 2018, 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 Bank in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITORS' REPORT

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Key Audit Matter	How our audit addressed the key audit matter
Impairment allowance for Loans and advances including the Bank's transition to SLFRS 9 Loans and advances amounting to LKR 108.1Bn. (Note 21), net of impairment allowance of LKR 5.3 Bn.(Note 21) consist of 70% of the total assets of the Bank as at 31st December 2018. The impact on transition to SLFRS 9 of the Bank's Financial statements previously reported, is disclosed in Note 4. The estimation of impairment allowance for loans and advances involved significant assumptions, estimates and complex manual calculations. Significant estimates and assumptions used by the management in such calculations and the basis for impairment allowance are disclosed in Notes 21 and 43.2 respectively. Impairment allowance for Loans and advances was considered a key audit matter due to the magnitude, significance of the assumptions involved and the transition to Sri Lanka Financial Reporting Standard 9 (SLFRS 9).	To assess the reasonableness of the impairment allowances, our audit procedures (among others) included the following: • We evaluated design, implementation and operating effectiveness of controls over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of significant judgements, estimates and assumptions in relation to the impairment by the Board Audit Committees and management. • In addition to the above, following key procedures were also performed: **For a sample of Loans and advances individually assessed for impairment:** - We tested for a sample of loans and advances where impairment indicators existed, reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. - For loans and advances granted to customers in industries with elevated risk of credit loss, we assessed the main criteria used by the management in its assessment of expected impairment losses and reasonableness of impairment made thereof. **For Loans and advances collectively assessed for impairment:** - We test checked the completeness and accuracy of the underlying information and calculations thereon by agreeing details to the relevant source documents, information in IT systems and re-performing the calculations. - We also considered the reasonableness of macroeconomic and other factors used by management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. • We assessed the adequacy of the related financial statement disclo-sures as set out in notes 21 and 43.2. • We tested the quantitative impact of the transition and assessed the adequacy of the Bank's disclosure on the impact of the initial adoption of SLFRS 9 as set out in note 4.

Key Audit Matter	How our audit addressed the key audit matter
Preparation of financial statements inclusive of significant disclosures The Bank uses multiple IT systems in its operations. As a result, the preparation of financial statements inclusive of key disclosures are heavily dependent on information derived from those multiple systems. The process of preparing key disclosures involved generation of multiple system reports, collation, analysis and spread sheet based further calculation. Accordingly, we considered the risk of any control lapses of the preparation of accounting and financial information as a Key Audit Matter.	Our audit procedures included the following, amongst others: • Understanding and evaluation of design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and collation of required information on which the significant financial statements disclosures are based. • Test-checking; - the reports used to generate significant disclosures for accuracy and completeness; - source data with those of the reports generated from the related systems; - calculations made by management; - reasonableness of categorizations made by management; • Assessing if the significant disclosures are being made in line with applicable new and revised accounting standards. • Where we considered necessary, performing additional substantive audit procedures on selected disclosures.

INDEPENDENT AUDITORS' REPORT

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Other information included in the 2018 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2097.

Ernst & Young

21st February 2019
Colombo

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31st December	Notes	2018 Rs.	2017 Rs.
Profit or Loss			
Gross Income		21,672,193,468	17,684,671,541
Interest Income		19,157,135,662	15,616,013,593
Interest Expense		(12,638,841,101)	(10,909,740,117)
Net Interest Income	5	6,518,294,561	4,706,273,476
Fee and Commission Income		1,626,409,880	1,408,275,735
Fee and Commission Expense		(106,728,749)	(96,332,332)
Net Fee and Commission Income	6	1,519,681,131	1,311,943,403
Net Gains from Trading	7	476,429,859	391,397,813
Net Gains from Financial Investments	8	-	823,500
Other Operating Income	9	412,218,067	268,160,900
Total Operating Income		8,926,623,618	6,678,599,092
Impairment Charges on Financial Assets	10	2,017,146,532	494,385,950
Net Operating Income		6,909,477,086	6,184,213,142
Personnel Expenses	11	1,863,074,115	1,624,034,615
Other Operating Expenses	12	2,445,747,486	2,108,244,978
Total Operating Expenses		4,308,821,601	3,732,279,593
Operating Profit Before Taxes & Levies on Financial Services		2,600,655,485	2,451,933,549
Taxes and Levies on Financial Services	13	690,998,636	576,477,542
Profit Before Tax		1,909,656,849	1,875,456,007
Income Tax Expense	14	368,014,002	484,954,113
Profit for the Year		1,541,642,847	1,390,501,894
Other Comprehensive Income			
Other Comprehensive Income not to be Re-classified to Profit or Loss			
Revaluation Surplus on Property Plant and Equipment	39	-	547,962,764
Deferred Tax Effect on above	14	-	(175,463,878)
		-	372,498,886
Actuarial Gains/ (Losses) on Defined Benefit Plans	36	25,531,522	(42,425,727)
Deferred Tax Effect on Above	14	(7,148,826)	11,879,204
		18,382,696	(30,546,523)
Other Comprehensive Income for the year Net of Tax		18,382,696	341,952,363
Total Comprehensive Income for the Year		1,560,025,543	1,732,454,257
Earnings per Share - Basic / Diluted	15	3.48	3.31

The Accounting Policies and Notes on pages 134 to 228 form an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31st December	Notes	2018 Rs.	2017 Rs.
Assets			
Cash and Cash Equivalents	16	2,214,106,348	1,665,040,665
Balances with Central Bank of Sri Lanka	17	6,481,993,762	6,884,017,912
Placements with Banks	18	-	237,368,087
Derivative Financial Instruments	19	209,701	16,091,393
Financial Assets at Fair Value through Profit or Loss	20	11,628,595	4,549,189,029
Financial Assets at Amortised Cost			
-Loans and Advances	21	108,168,861,465	-
-Debt and Other Instruments	22	34,074,557,579	-
Loans and Receivables to Banks	23	-	653,087,844
Loans and Receivables to Other Customers	24	-	109,139,936,050
Financial Assets at Fair Value through Other Comprehensive Income	25	6,157,847	-
Financial Investments - Available for Sale	26	-	6,157,847
Financial Investments - Held to Maturity	27	-	12,287,192,426
Property, Plant and Equipment	28	1,934,573,939	1,989,970,519
Intangible Assets	29	305,083,081	284,390,317
Deferred Tax Assets	14	4,931,302	-
Other Assets	30	824,179,204	789,242,975
Total Assets		154,026,282,823	138,501,685,064
Liabilities			
Due to Banks	31	1,744,206,845	2,497,901,244
Derivative Financial Instruments	19	114,235	7,366,561
Financial Liabilities at Amortised Cost			
-Due to Depositors	32	118,627,348,744	107,193,029,640
-Due to Debt Securities Holders	33	13,295,604,446	8,465,786,791
Debentures Issued	37	5,809,186,153	7,147,051,848
Current Tax Liabilities		785,735,048	550,341,567
Deferred Tax Liabilities	14	-	630,734,284
Other Provisions and Accruals	34	208,398,012	229,535,579
Other Liabilities	35	2,309,046,084	1,110,050,321
Total Liabilities		142,779,639,567	127,831,797,835
Equity			
Stated Capital	38	3,614,253,304	3,614,253,304
Retained Earnings		6,557,388,818	6,050,894,180
Revaluation Reserve	39	623,812,541	630,633,294
Statutory Reserve Fund	40	451,188,593	374,106,451
Total Equity		11,246,643,256	10,669,887,229
Total Liabilities and Equity		154,026,282,823	138,501,685,064
Commitments and Contingencies	47	44,169,941,089	32,426,389,393

The Accounting Policies and Notes on pages 134 to 228 form an integral part of the Financial Statements.

Certification

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

Lalith Jayakody
Chief Financial Officer

The Board of Directors are responsible for these Financial Statements. Signed for and on behalf of the Board by;

Dimuth Prasanna Chairman	Sarath Rangamuwa Deputy Chairman	Nimal Tillekeratne Director/Chief Executive Officer	Nayantha Fernando Company Secretary

21st February 2019
Colombo, Sri Lanka

STATEMENT OF CHANGES IN EQUITY

	Notes	Stated Capital	Reserves			Total
		Ordinary Voting Shares	Retained Earnings	Statutory Reserve Fund	Revaluation Reserve	
		Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2017		1,548,965,702	4,754,101,424	304,581,356	264,496,888	6,872,145,370
Total Comprehensive Income for the Year						
Profit for the Year		-	1,390,501,894	-	-	1,390,501,894
Other Comprehensive Income for the Year		-	(30,546,523)	-	372,498,886	341,952,363
Total Comprehensive Income for the Year		-	1,359,955,371	-	372,498,886	1,732,454,257
Transactions with Equity Holders, Recognised Directly in Equity, Contributions by and Distributions to Equity Holders						
Rights Issue of Shares	38	2,065,287,602	-	-	-	2,065,287,602
Total Contributions by & Distributions to Equity Holders		2,065,287,602	-	-	-	2,065,287,602
Other Transactions						
Transfer to Statutory Reserve Fund	40	-	(69,525,095)	69,525,095	-	-
Realisation of Revaluation Reserve	39	-	6,362,480	-	(6,362,480)	-
Total Other Transactions		-	(63,162,615)	69,525,095	(6,362,480)	-
Balance as at 31st December 2017		3,614,253,304	6,050,894,180	374,106,451	630,633,294	10,669,887,229
Impact of Adopting SLFRS 9	4	-	(1,365,652,105)	-	-	(1,365,652,105)
Deferred Tax Impact on Above	4	-	382,382,589	-	-	382,382,589
Re-Stated Opening Balance Under SLFRS 9		3,614,253,304	5,067,624,664	374,106,451	630,633,294	9,686,617,713
Total Comprehensive Income for the Year						
Profit for the Year		-	1,541,642,847	-	-	1,541,642,847
Other Comprehensive Income for the Year		-	18,382,696	-	-	18,382,696
Total Comprehensive Income for the Year		-	1,560,025,543	-	-	1,560,025,543
Other Transactions						
Transfer to Statutory Reserve Fund	40	-	(77,082,142)	77,082,142	-	-
Realisation of Revaluation Reserve	39	-	6,820,753	-	(6,820,753)	-
Total Other Transactions		-	(70,261,389)	77,082,142	(6,820,753)	-
Balance as at 31st December 2018		3,614,253,304	6,557,388,818	451,188,593	623,812,541	11,246,643,256

The Accounting Policies and Notes on pages 134 to 228 form an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31st December	Notes	2018 Rs.	2017 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		1,909,656,849	1,875,456,007
Adjustments for:			
Other Non Cash Items Included in Profit Before Tax	45	2,275,561,692	768,636,943
Change in Operating Assets	45	(18,619,190,241)	(18,418,100,235)
Change in Operating Liabilities	45	14,268,920,225	4,569,929,335
Interest Expense on Debentures	5	668,258,236	739,574,778
Interest Expense on Term Borrowings		738,304,432	407,222,309
Defined Benefit Plan Costs Paid	36	(27,834,345)	(30,578,917)
Income Tax Paid		(393,052,344)	(336,144,052)
Net Cash Flows from Operating Activities		820,624,504	(10,424,003,832)
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	28	(104,737,826)	(134,338,177)
Proceeds from the Sale of Property, Plant and Equipment		2,798,352	125,468
Net Proceeds from Financial Investments - Held to Maturity		-	9,466,236,020
Purchase of Intangible Assets	29	(55,063,651)	(1,750,823)
Net Cash Flows from Investing Activities		(157,003,125)	9,330,272,488
Cash Flows from Financing Activities			
Proceeds from the Right Issue	38	-	2,065,287,602
Proceeds from Term Borrowings	33	2,870,094,225	1,074,850,000
Redemption of Debentures	37	(1,309,144,700)	(750,000,000)
Repayment of Term Borrowings	33	(500,000,000)	-
Interest Paid on Debentures		(703,260,306)	(792,693,804)
Interest Paid on Term Borrowings		(709,613,002)	(379,850,308)
Net Cash Flows from Financing Activities		(351,923,783)	1,217,593,490
Net Increase in Cash and Cash Equivalents		311,697,596	123,862,146
Cash and Cash Equivalents as at 1st January	45	1,902,408,752	1,778,546,606
Cash and Cash Equivalents as at 31st December		2,214,106,348	1,902,408,752

The Accounting Policies and Notes on pages 134 to 228 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Reporting Entity

Pan Asia Banking Corporation PLC ("the Bank") is a public quoted company incorporated on 6th March 1995 with limited liability and domiciled in Sri Lanka. It is a Licensed Commercial Bank registered under Banking Act No. 33 of 1988 and amendments thereto. The registered office of the Bank is situated at No. 450, Galle Road, Colombo 03.The staff strength of the Bank as at 31st December 2018 is 1,497 (2017:1,472). The Ordinary Shares and Debentures of the Bank have a listing on the Colombo Stock Exchange. The Bank does not have an identifiable parent of its own. Further, the Bank does not hold any investments in the form of subsidiary, joint venture or associate.

1.2 Principal Activities and Nature of Operations

The principal activities of the Bank continued to be Banking and related activities such as accepting deposits, personal banking, trade financing, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease and hire purchase financing, pawning and gold loans, issuing of local and international credit cards, tele-banking facilities, internet and SMS Banking.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Bank for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standards comprising LKASs and SLFRSs as issued by the Institute of Chartered Accountants of Sri Lanka and comply with requirements of Companies Act No.7 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. The Financial Statements includes Statement of Financial Position, Statement of Comprehensive Income (Profit or Loss and Other Comprehensive Income), Statement of Changes in Equity and Statement of Cash Flows and Notes to the Financial Statements.

2.2 Basis of Measurement

The Financial Statements have been prepared on a historical cost basis, except for Financial Assets at Fair Value through Profit or Loss, Financial Assets at Fair Value through Other Comprehensive Income (FVOCI), Derivative Financial Instruments at fair value, Defined Benefit Obligations actuarialy valued and Freehold Land and Building stated at revalued amounts which are the fair values at the date of revaluation as explained in Note 28 to the Financial Statements, all of which have been measured at fair value. The Financial Statements are presented in Sri Lankan Rupees except when otherwise indicated.

2.3 Responsibility for Financial Statements

The Board of Directors is responsible for the Financial Statements of the Bank as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

2.4 Approval of Financial Statements by Directors

The Financial Statements for the year ended 31st December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 21st February 2019.

2.5 Presentation of Financial Statements

The Bank presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 46.

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

2.6 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Bank's financial statements requires management to make Judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, the management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/ estimates involved.

2.6.1 Going Concern

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

2.6.2 Classification of Financial Assets and Liabilities

The Bank's Accounting Policies provide scope for assets and liabilities to be classified, at inception into different accounting categories. The classification of financial instruments is given in Note 41, 'Analysis of Financial Assets and Liabilities by Measurement Basis'.

2.6.3 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include and model inputs such as volatility for discount rates. The valuation of financial instruments is described in more detail in Note 42.

2.6.4 Impairment Losses on Financial Assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- The Bank's days past due (DPD) based model, which assigns Probabilities of Defaults (PDs) to the individual age bucket
- The Bank's criteria for assessing if there has been a Significant Increase in Credit Risk (SICR) and so allowances for financial assets should be measured on a Life Time Expected Credit Losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values and the effect on Probability of Default (PDs), Exposure at Default (EADs) and Loss Given Default (LGDs)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

The impairment losses on Financial Assets as per SLFRS 9 are disclosed in more detail in Note 10, 10.1, 16.1, 18.1, 21.5, and 22.3.

The impairment losses on financial assets (prior to 1st January 2018) as per LKAS 39 are disclosed in more detail in Note 10 and 24.5.

2.6.5 Fair Value of Property, Plant and Equipment

The Freehold Land and Buildings of the Bank are reflected at fair value. The Management determined that these constitute a class of asset under SLFRS 13, based on the nature, characteristics and risks of the property. The Bank engages independent professional valuers to determine fair values of Land and Building. When current market prices of similar assets are available, such evidence is considered in estimating fair values of these assets using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Assumptions used are disclosed in Note 28.6.

2.6.6 Useful Lives, Methods of Depreciation and Residual Values of the Property, Plant and Equipment

The Bank reviews the useful lives, methods of depreciation and residual values of significant Property, Plant and Equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.6.7 Defined Benefit Plan Obligation

The Defined Benefit Plan Obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are reviewed at each reporting date and disclosed in Note 36.

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2.6.8 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.6.9 Provisions, Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

2.7 Changes in Accounting Policies and Disclosures

2.7.1 New and amended standards and interpretations

In these financial statements, the Bank has applied SLFRS 7R, SLFRS 9, and SLFRS 15 effective for annual periods beginning on or after 1st January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

2.7.1.1 SLFRS 9 - Financial Instruments

SLFRS 9 replaces LKAS 39 for annual periods on or after 1st January 2018.

The Bank has not restated comparative information for 2017 for financial instruments within the scope of SLFRS 9. Therefore, the comparative information for 2017 is reported under LKAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of SLFRS 9 have been recognised directly in retained earnings as of 1st January 2018 and are disclosed in Note 4.

2.7.1.1.1 Changes to classification and measurement

To determine their classification and measurement category, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and loans and receivables) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition.
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition.
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to Profit or Loss.

The Bank's classification of its financial assets and liabilities is explained in Notes 2.8.2.4 and 2.8.3. The quantitative impact of applying SLFRS 9 as at 1st January 2018 is disclosed in Note 4.

2.7.1.1.2 Changes to the impairment calculation

The adoption of SLFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

SLFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI),the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment methods are disclosed in Note 2.8.6. The quantitative impact of applying SLFRS 9 as at 1st January 2018 is disclosed in Note 4.

2.7.1.2 SLFRS 7R – Financial Instruments: Disclosures

To reflect the differences between SLFRS 9 and LKAS 39, SLFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with SLFRS 9, for the year beginning 1st January 2018. Changes include transition disclosures as shown in Note 4, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Notes 43.2.2, 43.2.3 and 43.2.4.

Reconciliations from opening to closing ECL allowances are presented in Notes 16.1, 18.1, 21.5 and 22.3.

2.7.1.3 SLFRS 15 - Revenue from Contracts with Customers

SLFRS 15 supersedes LKAS 11 Construction Contracts, LKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. SLFRS 15 requires entities to exercise judgements, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The impact analysis carried out with the assistance of an external consultant has revealed that material adjustments are not required to fee and commission income.

Except for above the accounting policies adopted by the Bank are consistent with those of the previous financial year.

2.8 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

2.8.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lankan Rupees (Rs.) which is also the functional currency.

2.8.1.1 Transactions and Balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Statement of Comprehensive Income (Profit or Loss).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

Forward foreign exchange contracts are valued at the forward market rate ruling on the date of the Statement of Financial Position. Unrealised gains and losses are dealt under 'Net Gain from Trading' in the Statement of Comprehensive Income (Profit or Loss).

2.8.2 Financial instruments - Initial Recognition

2.8.2.1 Date of Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

2.8.2.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.8.3.1.1 and 2.8.3.1.2. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

2.8.2.3 'Day 1' Profit or Loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

2.8.2.4 Measurement Categories of Financial Assets and Liabilities

From 1st January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 2.8.3.1
- FVOCI, as explained in Notes 2.8.3.4 and 2.8.3.5
- FVPL

The Bank classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 2.8.3.2 and 2.8.3.3. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 2.8.3.7.

Before 1st January 2018, the Bank classified its financial assets as loans and receivables (Amortised cost), FVPL, available-for-sale or held-to-maturity (Amortised cost), as explained in Notes 2.8.3.1, 2.8.3.9 and 2.8.3.10.

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Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 2.8.3.7.

2.8.3 Financial Assets and Liabilities

2.8.3.1 Due from Banks, Loans & Advances and Financial Investments at Amortised Cost

Before 1st January 2018, Due from banks and loans and advances to customers, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale

For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1st January 2018, the Bank only measures balances with foreign banks, placements with banks, loans and advances and other debt instruments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

2.8.3.1.1 Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment
- The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case'

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

2.8.3.1.2 The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

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

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

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.8.3.2 Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, foreign exchange rate, financial instrument price, commodity price, index of prices or rates, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for

other types of contracts expected to have a similar response to changes in market factors.

- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include cross-currency swaps, forward foreign exchange contracts and interest rate swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fully collateralised derivatives that are settled net in cash on a regular basis through clearing houses are only recognised to the extent of the overnight outstanding balance. The notional amount and fair value of such derivatives are disclosed separately in Note 19. Changes in the fair value of derivatives are included in 'net gains from trading' in Note 7.

2.8.3.3 Financial assets or financial liabilities held for trading

The Bank classifies financial assets as held for trading when they have been purchased primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there evidence of a recent pattern of short-term profit is taking. Held-for-trading assets are recorded and measured in the statement of financial position at fair value. Changes in fair value and dividend income are recognised in net trading income. Interest income on held - for trading assets are recorded in 'Interest Income'. Included in this classification are debt securities, units and equities.

2.8.3.4.Debt instruments at FVOCI (Policy applicable from 1st January 2018)

The Bank applies the new category under SLFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments available- for-sale under LKAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained in Note 2.8.6.3. Where the Bank holds more than one investment in the same security, they are deemed to be disposed off on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

2.8.3.5 Equity instruments at FVOCI (Policy applicable from 1st January 2018)

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of 'Equity' under LKAS 32 - Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by- instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

2.8.3.6. Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

2.8.3.7.Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criterions is met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

  Or

- The liabilities (and assets until 1st January 2018 under LKAS 39) are part of a group of financial liabilities (or financial assets, or both under LKAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

  Or

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- The liabilities (and assets until 1st January 2018 under LKAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative is prohibited.

2.8.3.8. Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within other liabilities) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or Loss, and under LKAS 39 the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or under SLFRS 9, an ECL provision as set out in Note 35.1.

The premium received is recognised in the Statement of Comprehensive Income (Profit or Loss) in net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under LKAS 39, a provision was made if they were an onerous contract but, from 1st January 2018, these contracts are in the scope of the ECL requirements. ECL's on undrawn credit commitments are added to the impairment allowances of the respective product and disclosed under Note 21.5.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments are disclosed in Note 47.

2.8.3.9 Financial Investments - Available for Sale (Policy applicable before 1st January 2018)

Available for Sale investments include unquoted equity. Equity investments classified as 'Available for Sale' are those which are neither classified as held for trading nor designated at fair value through profit or loss. The Bank has not designated any loans or receivables as 'Available for Sale'. After initial measurement, Financial Investments - Available for Sale are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (Other comprehensive income). When the investment is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income (Profit or loss) in 'Net Gains from Financial Investments'. Where the Bank holds more than one investment in the same security, they are deemed to be disposed off on a first-in first-out basis. Dividends earned whilst holding Available for Sale Financial Investments' are recognised in the Statement of Comprehensive Income (Profit or loss) as 'Net Gains from Financial Investments' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in 'Impairment Charges on Financial Assets' in the Statement of Comprehensive Income (Profit or loss) and removed from Equity.

2.8.3.10 Financial Investments- Held to Maturity (Policy applicable before 1st January 2018)

Financial Investments - Held to Maturity are non derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity.

After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the Effective Interest Rate. The amortisation is included in 'Interest income' in the Statement of Comprehensive Income (Profit or loss). The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income (Profit or loss) under Note 10 - Impairment Charges on Financial Assets.

If the Bank were to sell or reclassify more than an insignificant amount of Financial Investments - Held to Maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as 'Available for Sale'. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

2.8.4 Reclassification of financial assets and liabilities

From 1st January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes off, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2017 and 2018.

2.8.5 Derecognition of financial assets and liabilities

2.8.5.1. Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as 'Stage 1' for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to de-recognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

2.8.5.2. De-recognition other than for substantial modification

2.8.5.2.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for de-recognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

Or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.8.5.2.2. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition 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.

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2.8.6 Impairment of financial assets (Policy applicable from 1st January 2018)

2.8.6.1.Overview of the ECL principles

As described in Note 2.7.1.1, the adoption of SLFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing LKAS 39's incurred loss approach with a forward-looking ECL approach. From 1st January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 2.8.6.2. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 43.2.2.5.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 43.2.2.6.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 43.2.2.5.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 43.2.2.1). The Bank records an allowance for the LTECLs.
- POCI:Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

2.8.6.2. The calculation of ECLs

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD : The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 43.2.2.2.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 43.2.2.3.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 43.2.2.4.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 2.8.6.5. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 2.8.6.5, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 10. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in Note 2.8.6.5.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired (as defined in Note 43.2.2.1), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit-adjusted EIR.
- Loan commitments and letters of credit: When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

  For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For Letters of Credit, ECLs are recognised within Other Liabilities.
- Financial guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or Loss, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within Other Liabilities.

2.8.6.3. Debt instruments measured at FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon de-recognition of the assets.

2.8.6.4.Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

2.8.6.5.Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdrafts and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years.

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The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 43.2.2, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 42.2.2.6, on an individual basis and on a collective basis. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

2.8.6.6 Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Exchange rate
- Inflation price indices
- Average Loan to Value (LTV)
- Interest rates
- Government Policies
- Status of Industry and Business
- Regulatory Impact

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 43.2.3.

2.8.7 Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, property, letters of credit/ guarantees, receivables, inventories and other movable and non movable assets. The fair value of collateral is generally assessed, at a minimum, at inception and thereafter value changes are monitored in accordance with policies and procedures of the Bank. However, some collateral, for example, cash or securities relating to margining requirements, are valued on daily basis. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as freehold property is valued based on valuation reports and other independent sources.

2.8.8 Collateral repossessed

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. The Bank's policy is to sell the repossessed assets at the earliest possible opportunity. Such collaterals repossessed are held on a memorandum basis without derecognising the underlying receivable.

2.8.9 Write-offs

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. The Bank takes reasonable steps in pursuing recovery of contractual amounts outstanding prior to writing them off from books. The amounts written off during the year as disclosed in note 21.5 are contractual amounts which the bank has either become unsuccessful on the enforcement action or has concluded that the chances of recovering the same as remote. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are shown under Other Operating Income.

2.8.10. Forborne loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1st January 2018, when the loan has been renegotiated or modified but not de-recognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 43.2.2.5.The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as 'forborne', it will remain forborne for 3-12 months probation period, depending on number of days in arrears of respective facilities prior to forebearence as prescribed by Central Bank of Sri Lanka. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing.
- The probation period of 3-12 months has passed from the date the forborne contract was considered performing.
- The customer does not have any contract that is more than 30 days past due

Details of forborne assets are disclosed in Note 43.2.5.

If modifications are substantial, the loan is de-recognised, as explained above.

2.8.11 Impairment of Financial Assets (Policy Applicable before 1st January 2018)

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter Bankruptcy or other financial re-organisation, default or delinquency in interest or principal payments; and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.8.11.1 Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income (Profit or loss). Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after then impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write off is later recovered, the recovery is credited to the 'Other Operating Income'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's assessment, that considers credit risk characteristics such as asset type, industry, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses on financial assets carried at amortised cost are given in Note 10 and, an analysis of the impairment allowance on Loans and Receivables are given in Note 24.5.

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2.8.11.2 Financial Investments - Available for Sale

For Financial Investments - Available for Sale, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Bank treats 'significant 'generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Other Comprehensive Income is removed from equity and recognised in the Profit or loss in Statement of Comprehensive Income. Impairment losses on equity investments are not reversed through the Profit or Loss in Statement of Comprehensive Income. Increases in the fair value after impairment are recognised in Other Comprehensive Income.

2.8.11.3 Renegotiated Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been re-negotiated, any impairment is measured using the original Effective Interest Rate as calculated before the modification of terms and the loan is no longer considered 'past due'. The management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2.8.11.4 Write off of Financial Assets Carried at Amortised Cost

Financial assets and the related impairment allowance accounts are normally written off, either partially or in full when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

2.8.12 Fair Value Measurement

The Bank measures financial instruments such as Financial Assets Held for Trading, Financial Derivatives, and non-financial assets such as certain classes of Property, Plant and Equipment at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised under the respective notes.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as properties and significant liabilities, such as defined benefit obligations. The selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management in conjunction with the Bank's external valuers', also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations.

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 42.2.

2.8.13 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.8.14 Leases

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.8.14.1 Operating Leases

Bank as a Lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income (Profit or loss) on a straight line basis over the lease term.

Bank as a Lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

2.8.14.2 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as 'Finance Leases'. Amounts receivable under finance leases are included under 'Loans and Advances' in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

2.8.15 Recognition of Income and Expenses

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

2.8.15.1The Effective Interest Rate Method

Under both SLFRS 9 and LKAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under LKAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income.

The adjustment is subsequently amortised through Interest and similar income in the Statement of Comprehensive Income (Profit or Loss).

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2.8.15.2 Interest Income and Expense

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures (as outlined in Note 43.2.2.1) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets (as set out in Note 2.8.6.4), the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in interest income.

2.8.15.3 Fee and Commission Income and Expense

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and Commission Income comprise mainly of fees received from customers for guarantees and other services provided by the Bank together with foreign and domestic tariffs. Such income is recognised as revenue as the services are provided. Fee income can be divided into the following two categories:

2.8.15.3.1 Fee Income Earned from Services that are provided Over a Certain Period of Time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on straight line basis.

2.8.15.3.2 Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

2.8.15.4 Dividend Income

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

2.8.15.5 Net Gains from Trading

Results arising from trading activities include all gains and losses from buying and selling and changes in fair value of Financial Assets at fair value through profit or loss.

2.8.15.6 Expenditure Recognition

Expenses are recognised in Profit or Loss in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to Profit or Loss in the Statement of Comprehensive Income. For the purpose of presentation of the Statement of Comprehensive Income, the 'function of expenses method' has been adopted, on the basis that it presents fairly the elements of the Bank's performance.

2.8.15.7 Short term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided and are included under Personnel Expenses in the Statement of Comprehensive Income (Profit or Loss). A liability is recognised for the amounts expected to be paid under short-term bonus if the Bank has a present legal or constructive obligation to pay this amount as a result past service rendered by the employee and the obligation can be measured reliably.

2.8.16 Cash and Cash Equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises local and foreign currency, amounts due from Foreign Banks on demand or with an original maturity of three months or less and Placements with Banks with original maturities of three months or less from the date of placement with insignificant risk of changes in value.

2.8.17 Property, Plant and Equipment

Property, Plant and Equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one year.

2.8.17.1 Basis of Recognition

Property, Plant and Equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Bank and cost of the asset can be reliably measured.

2.8.17.2 Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. The cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding cost of day to day servicing) as explained in 2.8.17.5 below. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of Computer Hardware. When parts of an item of property or equipment have different useful lives, they are accounted for as separate Items (major components) of Property, Plant and Equipment.

2.8.17.3 Cost Model

The Bank applies cost model to Property, Plant and Equipment, except for Freehold Land and Buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

2.8.17.4 Revaluation Model

The Bank applies the revaluation model to the entire class of Freehold Land and Buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold Land and Buildings of the Bank are revalued every three years on a roll over basis or more frequently if the fair values are substantially different from the carrying amounts to ensure that the carrying amounts do not differ materially from the fair values at the reporting date.

When asset's carrying amount is increased as a result of a revaluation the increase shall be recognised in Other Comprehensive Income and accumulated in equity under the heading of 'Revaluation Reserve'. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in Profit or Loss. However, the decrease shall be recognised in Other Comprehensive Income to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under the heading of 'Revaluation Reserve'.

A transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation reserve relating to the particular asset being sold/disposed off is transferred to retained earnings upon de-recognition.

2.8.17.5 Subsequent Costs

The subsequent cost of replacing a component of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Bank and its cost can be reliably measured. The costs of day to day servicing of Property, Plant and Equipment are charged to Profit or Loss as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

2.8.17.6 De-recognition

The carrying amount of an item of Property, Plant and Equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in profit or loss when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

2.8.17.7 Depreciation

The Bank provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Bank of the different types of assets, except for which are disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is de-recognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Depreciation is calculated using the straight line method to write down the cost of Property, Plant and Equipment to their residual values over their estimated useful lives. Freehold Land is not depreciated. The estimated useful lives are as follows:

Buildings	40 Years
Office Equipment	6 Years
Computer Hardware and Equipment	6-10 Years
Furniture, Fittings and Fixtures	5-10 Years
Motor Vehicles	5 Years

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The depreciation method and residual values of assets are reviewed at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

2.8.18 Intangible Assets

An intangible asset is an identifiable non monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes. The Bank's intangible assets include cost of core banking licences and other computer software.

2.8.18.1 Basis of Recognition

An intangible asset is recognised only when it is probable that the expected future economic benefits that are attributable to it will flow to the Bank and its cost can be measured reliably.

2.8.18.2 Measurement

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

2.8.18.3 Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

2.8.18.4 Amortisation

Intangible assets are amortised on straight line basis in profit or loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Bank. The estimated useful lives are as follows:

Core Banking Softwares Licenses	15 years
Other Software	8 years

The above rates are also comparable with the rates applied in the previous year.

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

Expenditure on an intangible item that was initially recognised as an expense by the Bank in previous financial years are not recognised as part of the cost of an intangible asset at a later date.

2.8.18.5 Retirement and Disposal

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in Profit or Loss.

2.8.19 Other Assets

All other assets are stated at cost less accumulated impairment losses.

2.8.20 Impairment of Non Financial Assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices or other available fair value indicators.

An assessment is made for assets at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or cash generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Profit or loss in the Statement of Comprehensive Income.

2.8.21 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in Profit or Loss in the Statement of Comprehensive Income net of any reimbursement.

2.8.21.1 Operational Risk Events

Provisions for operational risk events are recognised for losses incurred by the Bank which do not relate directly to amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

2.8.22 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. Operating lease commitments of the Bank and pending legal claims against the Bank too form part of commitments of the Bank. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. But these contingent liabilities do contain credit risk and are therefore form part of the overall risk of the Bank.

Details of commitments and contingencies are given in Note 47.

2.8.22.1 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements within 'Other Liabilities' at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or loss in the Statement of Comprehensive Income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in Profit or Loss in the Statement of Comprehensive Income under 'Impairment for Loans and Other Losses'. The premium received is recognised in the Profit or Loss in the Statement of Comprehensive Income in 'Net Fee and Commission Income' on a straight line basis over the life of the guarantee.

2.8.22.2 Legal Claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

2.8.23 Employee Retirement Benefits

2.8.23.1 Defined Contribution Plan Costs

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 a defined contribution plan are recognised as 'a Personnel Expenses' in the Profit or Loss in the Statement of Comprehensive Income in the periods during which services are rendered by employees. Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with the respective Statutes and Regulations. Accordingly, the Bank contributes 12% - 15% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognised as an expense under 'Personnel Expenses'.

2.8.23.2 Defined Benefit Plan Costs

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The liability recognised in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the 'Projected Unit Credit Method'. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the liability. Provision has been made in the financial statements for retiring gratuities from the first year of service for all employees, in conformity with LKAS 19: 'Employee Benefits'.

NOTES TO THE FINANCIAL STATEMENTS

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued service. The liability is not externally funded.

2.8.24 Other Liabilities

Other liabilities are recorded at the cash value to be paid when settled.

2.8.25 Taxes

2.8.25.1 Current Tax

The provision for income tax is based on the elements of the income and expenditure as reported in the Financial Statements as per the legislations applicable for 1st January 2018 to 31st December 2018 period.

Income tax provision for 1st January 2018- 31st March 2018 period has been computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 as amended subsequently whereas income tax provision for 1st April 2018 to 31st December 2018 period has been computed in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 as the previous enactment i.e. Inland Revenue Act No. 10 of 2006 was repealed.

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

2.8.25.2 Deferred Tax

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Comprehensive Income (Profit or Loss).

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

2.8.25.3 Economic Service Charge

As per provisions of the Economic Service Charge (ESC) Act No.13 of 2006 and amendments thereafter, ESC is payable at 0.5% on Bank's liable turnover and is deductible from income tax payable.

2.8.25.4 Value Added Tax on Financial Services

Value Added Tax on Financial Services is calculated at 15% in accordance with the provisions of the Value Added Tax Act No.14 of 2002 and amendments thereto.

2.8.25.5 Nation Building Tax on Financial Services

Nation Building Tax on Financial Services is calculated at the rate of 2% in accordance with the provisions of the Nation Building Tax Act No.09 of 2009 and amendments thereto

2.8.25.6 Debt Repayment Levy

Debt Repayment Levy has been imposed on Banks and Finance Companies for a period of 3 years commencing from 1st October 2018 in accordance with the provisions of the Finance Act No. 35 of 2018.

Debt Repayment Levy is calculated at the rate of 7% on the Taxable Value Addition computed for the purpose of Value Added Tax on Financial Services in accordance with the provisions of the Value Added Tax Act No.14 of 2002 before deducting Value Added Tax and Nation Building Tax on Financial Services.

2.8.25.7 Crop Insurance Levy

Crop Insurance Levy is calculated at the rate of 1% of the profit after tax in accordance with Finance Act No. 12 of 2013.

2.8.26 Statutory Reserve Fund

"Statutory Reserve Fund" represents the statutory requirement in terms of Section 20 (1) and (2) of the Banking Act No 30 of 1988.

2.8.27 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.8.28 Materiality and Aggregation

Each material class of similar items are presented in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.8.29 Related Party Transactions

Disclosures have made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/ decisions of the other, irrespective of whether a price is being charged.

2.8.30 Events after the Reporting Period

All the material events after end of the reporting period have been considered and appropriate adjustments/ disclosures have been made in Note 50 to the Financial Statements.

2.9 Segment Reporting

The Bank's segmental reporting is based on the following operating segments: Corporate Banking, Retail & SME Banking and Treasury & Investments.

Corporate Banking segment includes loans, overdrafts, other credit facilities, deposits, current accounts and other services offered to corporate customers.

Retail & SME banking segment includes loans, overdrafts, credit card facilities, deposits, current accounts and other services offered to Retail and SME customers.

Treasury and investment function includes trading function, financing and other central functions, use of derivative for risk management purpose, investment products and services to institutional investors and intermediaries.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Financial Statements.

Income taxes and overhead expenses are managed on an entity basis and are not allocated to operating segments. Interest income is reported on net basis as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Revenue from transactions with no single external customer or a counterparty amounted to 10% or more of the Bank's total revenue during the year.

2.10 Regulatory Provisions

Deposit Insurance and Liquidity Support Scheme

In terms of the Banking Act Direction No 05 of 2010 "Insurance of Deposit Liabilities" issued on 27th September 2010 and subsequent amendments there to all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No.01 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. The said scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No.01 of 2013.

Deposits to be insured include demand, time and savings deposit liabilities and exclude the following;

a) deposit liabilities to member institutions

b) deposit liabilities to Government of Sri Lanka

c) deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No.11 of 2007 on Corporate Governance of Licensed Commercial Banks

d) deposit liabilities held as collateral against any accommodation granted

e) deposit liabilities falling within the meaning of 'abandoned property' in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

Licensed Commercial Banks are required to pay a premium of 0.10% per annum on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceded financial year and a premium of 0.125% per annum on eligible deposit liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

2.11 Transition Disclosures

Note 4 sets out the impact of adopting SLFRS 9 on the statement of financial position, and retained earnings including the effect of replacing LKAS 39's incurred credit loss calculations with SLFRS 9's ECLs.

NOTES TO THE FINANCIAL STATEMENTS

3 NEW ACCOUNTING STANDARDS

The following new accounting standards and amendments/improvements to existing standards which have been issued by the Institute of Chartered Accountants of Sri Lanka (CASL) are not effective as at 31st December 2018. None of these have been early adopted by the Bank.

SLFRS 16: Leases

SLFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model requiring lessees recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a lower value. The lessors continue to classify leases as operating or finance as SLFRS 16's approach for lessor accounting substantially unchanged from its predecessor.

SLFRS 16 is effective for financial reporting periods beginning on or after 1st January 2019, with early adoption permitted, provided the new revenue standard, SLFRS 15 Revenue from Contracts with Customers has been applied, or is applied at the same date as SLFRS 16.

The Bank has engaged an external consultant to assist in the implementation of above standards and the project is currently underway. pending the completion of the detailed impact analysis, possible impact from SLFRS 16 is not reasonably estimable as of the reporting date.

4 TRANSITION DISCLOSURES

Below set out the impact of adopting SLFRS 9 on the statement of financial position, and retained earnings including the effect of replacing LKAS 39's incurred credit loss calculations with SLFRS 9's ECLs.

A reconciliation between the carrying amounts (Statement of Financial Position) under LKAS 39 to the balances reported under SLFRS 9 as of 1st January 2018 is as follows:

	Ref.	LKAS 39		Re-classification	Re-measurement		SLFRS 9	
		Category	Amount (Rs.)	Rs.	ECL (Rs.)	Other (Rs.)	Amount (Rs.)	Category
Financial Assets								
Cash and Cash Equivalents		L & R	1,665,040,665	-	(952,587)	-	1,664,088,078	AC
Balances with Central Bank of Sri Lanka		L & R	6,884,017,912	-	-	-	6,884,017,912	AC
Placements with Banks		L & R	237,368,087	-	(645,483)	-	236,722,604	AC
Derivative Financial Instruments		HFT	16,091,393	-	-	-	16,091,393	FVPL
Financial Assets at Fair Value through Profit or Loss		HFT	4,549,189,029	-	-	-	4,549,189,029	FVPL
Loans and Advances - at Amortised Cost	(a)	AC	-	98,743,815,679	(1,291,093,731)	-	97,452,721,948	AC
From : Loans and Receivables to Banks			-	248,283,332	-	-	-	
From : Loans and Receivables to Other Customers			-	98,495,532,347	-	-	-	
Debt and Other Instruments - at Amortised Cost	(b)	AC	-	23,336,400,641	(50,067,635)	-	23,286,333,006	AC
From : Financial Instruments - Held to Maturity			-	12,287,192,426	-	-	-	
From : Loans and Receivables to Banks			-	404,804,512	-	-	-	
From : Loans and Receivables to Other Customers			-	10,644,403,703	-	-	-	
Loans and Receivables to Banks		L & R	653,087,844	(653,087,844)	-	-	-	N/A
To : Loans and Advances - at Amortised Cost	(a)		-	248,283,332	-	-	-	
To : Debt & Other Instruments - at Amortised Cost	(b)		-	404,804,512	-	-	-	
Loans and Receivables to Other Customers		L & R	109,139,936,050	(109,139,936,050)	-	-	-	N/A
To : Loans and Advances - at Amortised Cost	(a)		-	98,495,532,347	-	-	-	
To : Debt & Other Instruments - at Amortised Cost	(b)		-	10,644,403,703	-	-	-	
Equity Instruments at FVOCI	(c)	N/A	-	6,157,847	-	-	6,157,847	FVOCI
From: Financial Investments - Available for Sale			-	(6,157,847)	-	-	-	
Financial Investments - Available for Sale	(c)	AFS	6,157,847	(6,157,847)	-	-	-	N/A
To: Financial Instruments at FVOCI			-	6,157,847	-	-	-	
Financial Investments - Held to Maturity	(b)	HTM	12,287,192,426	(12,287,192,426)	-	-	-	N/A
To : Debt and Other Instruments - at Amortised Cost			-	12,287,192,426	-	-	-	
Non Financial Assets								
Property, Plant and Equipment		N/A	1,989,970,519	-	-	-	1,989,970,519	N/A
Intangible Assets		N/A	284,390,317	-	-	-	284,390,317	N/A
Other Assets		N/A	789,242,975	-	-	-	789,242,975	N/A
Total Assets		N/A	138,501,685,064	-	(1,342,759,436)	-	137,158,925,628	N/A

AC: Amortised cost
AFS : Available for Sale
FVOCI : Fair Value through Other Comprehensive Income
FVPL: Fair Value through Profit or Loss
HTM : Held to Maturity
L & R: Loans and Receivables
N/A : Not Available

NOTES TO THE FINANCIAL STATEMENTS

4.1 TRANSITION DISCLOSURES

	Ref.	LKAS 39		Re-classification	Re-measurement		SLFRS 9	
		Category	Amount (Rs.)	Rs.	ECL (Rs.)	Other (Rs.)	Amount (Rs.)	Category
Financial Liabilities								
Due to Banks	(d)	AC	2,497,901,244	(515,919,839)	-	-	1,981,981,405	AC
To : Due to Depositors			-	515,919,839	-	-	-	
Derivative Financial Instruments		HFT	7,366,561	-	-	-	7,366,561	FVPL
Due to Depositors	(e)	N/A	-	107,708,949,479	-	-	107,708,949,479	AC
From : Due to Banks	(d)		-	515,919,839	-	-	-	
From : Due to Other Customers			-	107,193,029,640	-	-	-	
Due to Other Customers	(e)	AC	107,193,029,640	(107,193,029,640)	-	-	-	N/A
To: Due to Depositors			-	107,193,029,640	-	-	-	
Due to Debt Securities Holders		AC	8,465,786,791	-	-	-	8,465,786,791	AC
Debentures Issued		AC	7,147,051,848	-	-	-	7,147,051,848	AC
Non Financial Liabilities								
Current Tax Liabilities		N/A	550,341,567	-	-	-	550,341,567	N/A
Deferred Tax Liabilities	(f)	N/A	630,734,284	-	-	(382,382,589)	248,351,695	N/A
Other Provisions and Accruals		N/A	229,535,579	-	-	-	229,535,579	N/A
Other Liabilities	(g)	N/A	1,110,050,321	-	22,892,669	-	1,132,942,990	N/A
Total Liabilities			127,831,797,835	-	22,892,669	(382,382,589)	127,472,307,915	
Equity								
Stated Capital		N/A	3,614,253,304	-	-	-	3,614,253,304	N/A
Retained Earnings		N/A	6,050,894,180	-	-	(983,269,516)	5,067,624,664	N/A
Revaluation Reserve		N/A	630,633,294	-	-	-	630,633,294	N/A
Statutory Reserve Fund		N/A	374,106,451	-	-	-	374,106,451	N/A
Total Equity			10,669,887,229	-	-	(983,269,516)	9,686,617,713	
Total Equity and Liabilities			138,501,685,064	-	22,892,669	(1,365,652,105)	137,158,925,628	

(a) As at 1st January 2018, Loans and Advances previously classified as 'Loans and Receivables to Banks' and 'Loans and Receivables to Other Customers' have been re-classified as 'Loans and Advances at Amortised Cost'. These instruments met the criterion of 'Solely for Payment of Principal and Interest (SPPI)'. These were not actively traded and were held with the intention of collecting cash flows without any intention to sell.

(b) As at 1st January 2018, certain financial investments previously classified as 'Loans and Receivables to Banks', 'Loans and Receivables to Other Customers' and ' Financial Investments - Held to Maturity' have been re-classified as 'Debt and Other Instruments at Amortised Cost'. These instruments met the criterion of 'Solely for Payment of Principal and Interest (SPPI)'. These were not actively traded and were held with the intention of collecting cash flows without any intention to sell.

(c) As at 1st January 2018, Financial assets previously classified as 'Available for Sale (AFS)' category have been re-classified as 'Financial Instruments at Fair Value through Other Comprehensive Income (FVOCI) as per SLFRS 9.

(d) As at 1st January 2018, deposits made by other banks previously classified as ' Due to Banks' have been re-classified as 'Due to Depositors'.

(e) As at 1st January 2018, deposits made by non bank customers previously classified as' Due to Other Customers' have been re-classified as 'Due to Depositors'.

(f) The impact of adopting SLFRS 9 on deferred tax is set out on the next page and in Note 14.2.

(g) The ECL adjustment on Financial Guarantees, Documentary Credit and Acceptances are shown under 'Other Liabilities'

4.2 TRANSITION DISCLOSURES

The impact of transition to SLFRS 9 on reserves and retained earnings is as follows:

	Retained Earnings Rs.
Retained Earnings	
Closing balance under LKAS 39 (31 st December 2017)	6,050,894,180
Re-measurement adjustments in relation to Adoption of SLFRS 9	(1,365,652,105)
Deferred tax in relation to the above	382,382,589
Opening balance under SLFRS 9 (1st January 2018)	5,067,624,664
Total Change in Equity due to Adoption of SLFRS 9	(983,269,516)

The following table reconciles the aggregate opening loan loss provision allowances under LKAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with LKAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under SLFRS 9.

	Loan loss provision under LKAS 39 at 31st December 2017 Rs.	Re-measure-ment Rs.	ECLs under SLFRS 9 at 1st January 2018 Rs.
Impairment Allowance for:			
Loans and Receivables as per LKAS 39/Financial Assets at amortised cost under SLFRS 9	2,211,563,997	1,342,759,436	3,554,323,433
	2,211,563,997	1,342,759,436	3,554,323,433
Financial Guarantees	-	14,642,330	14,642,330
Documentary Credit (LC)	-	8,250,339	8,250,339
	-	22,892,669	22,892,669
	2,211,563,997	1,365,652,105	3,577,216,102

NOTES TO THE FINANCIAL STATEMENTS

5 NET INTEREST INCOME

	2018 Rs.	2017 Rs.
Interest Income		
Placements with Banks	29,177,275	15,368,705
Financial Assets at Amortised Cost		
-Loans and Advances	16,747,123,550	-
-Debt and Other Instruments	2,344,626,687	-
Loans and Receivables to Banks	-	82,769,341
Loans and Receivables to Other Customers	-	13,965,909,655
Financial Investments - Held to Maturity	-	1,506,855,444
Financial Assets at Fair Value through Profit or Loss	36,208,150	45,110,448
	19,157,135,662	15,616,013,593
Interest Expense		
Due to Banks	137,537,101	361,932,074
Financial Liabilities at Amortised Cost		
-Due to Depositors	10,867,465,571	9,099,011,665
-Due to Debt Securities Holders	965,580,192	709,221,598
Debenture Issued	668,258,237	739,574,780
	12,638,841,101	10,909,740,117
Net Interest Income	6,518,294,561	4,706,273,476

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

5.1 Interest Income from Sri Lanka Government Securities and related Financial Instruments

	2018 Rs.	2017 Rs.
Interest Income	2,193,966,425	2,097,315,661

Interest Income from Sri Lanka Government Securities and related Financial Instruments includes Interest Income from Treasury Bills, Treasury Bonds, Sri Lanka Development Bonds, Securities Purchased under Re-Sale Agreements and other related instruments.

5.2 Net Interest Income from Financial Instruments not Measured at Fair Value through Profit or Loss

	2018 Rs.	2017 Rs.
Interest Income	19,120,927,512	15,570,903,145
Interest Expense	(12,638,841,101)	(10,909,740,117)
Net Interest Income	6,482,086,411	4,661,163,028

5.3 Interest Accrued on Impaired Loans and Advances

The Bank's interest income for year 2018 includes interest accrued on impaired loans and advances of Rs. 278,211,344/- (2017 - 174,933,734/-)

6 NET FEE AND COMMISSION INCOME

	2018 Rs.	2017 Rs.
Net Fee and Commission Income		
Fee and Commission Income	1,626,409,880	1,408,275,735
Fee and Commission Expense	(106,728,749)	(96,332,332)
	1,519,681,131	1,311,943,403
Comprising		
Loans	625,594,940	522,551,753
Cards	448,177,061	335,573,567
Trade and Remittance	335,579,254	280,639,088
Deposits	52,765,115	133,522,439
Guarantees	57,564,761	39,656,556
	1,519,681,131	1,311,943,403

7 NET GAINS FROM TRADING

	2018 Rs.	2017 Rs.
Equities and Unit Trusts		
Realised	194,956,365	216,919,810
Unrealised	(478,824)	(615,631)
Debt Securities		
Realised	5,546,349	12,564,216
Unrealised	(6,531,315)	8,641,695
Foreign Exchange - Net Forward Forex Gain	282,937,284	153,887,723
	476,429,859	391,397,813

Equities and unit trust Income includes the results of buying and selling, dividend income and changes in the fair value of equity securities and units. Debt securities income includes the results of buying and selling and changes in the fair value of debt securities. Foreign Exchange - Net Forward Forex Gain includes foreign exchange differences arising from derivative contracts which are not designated as hedging instruments.

8 NET GAINS FROM FINANCIAL INVESTMENTS

	2018 Rs.	2017 Rs.
Financial Investments Available for Sale - Equities	-	823,500
	-	823,500

NOTES TO THE FINANCIAL STATEMENTS

9 OTHER OPERATING INCOME

	2018 Rs.	2017 Rs.
Gains on Revaluation of Foreign Exchange	377,422,327	262,950,163
Gains on Sale of Property Plant and Equipment	2,104,202	-
Recovery of Loans Written-off	19,614,763	-
Other Income	13,076,775	5,210,737
	412,218,067	268,160,900

9.1 The Bank does not perform interbank foreign currency transactions for trading purposes in the normal course of business. Therefore, no gain or loss generated from such transactions during the year. However, the Bank carry out forward transaction deals pertaining to customer requirements in the normal course of business.

10 IMPAIRMENT CHARGES ON FINANCIAL ASSETS

	2018		
	Individual Rs.	Collective Rs.	Total Rs.
Cash and Cash Equivalents (Note 16.1)	-	(591,471)	(591,471)
Placements with Banks (Note 18.1)	-	(645,483)	(645,483)
Loans and Advances - at Amortised Cost (Note 21.5)	1,297,299,816	701,812,027	1,999,111,843
Debt and Other Instruments - at Amortised Cost (Note 22.3)	-	33,763,997	33,763,997
Financial Guarantees (Note 35.1)	-	(8,133,718)	(8,133,718)
Documentary Credit (Note 35.1)	-	(6,358,636)	(6,358,636)
Total Impairment Charge for the Year	1,297,299,816	719,846,716	2,017,146,532

Stage-wise analysis of impairment charge for the year is found in Note 10.1.

The table below shows the impairment charges recorded in the Statement of Comprehensive Income (Profit or Loss) under LKAS 39 during 2017:

	2017 Rs.
Loans and Receivables to Other Customers	
Individual Impairment Losses	337,264,627
Collective Impairment Losses	160,172,614
	497,437,241
Other Impairment Reversals	(3,051,291)
Total Impairment Charge for the Year (Note 24.4)	494,385,950

The Bank has not recognised any impairment losses in 2017 with regard to other classes of financial assets other than above.

10.1 Impairment Charge on Financial Assets - Stage-wise Analysis

	2018											
	Individual				Collective				Total			
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Cash and Cash Equivalents	-	-	-	-	(591,471)	-	-	(591,471)	(591,471)	-	-	(591,471)
Placements with Banks	-	-	-	-	(645,483)	-	-	(645,483)	(645,483)	-	-	(645,483)
Loans and Advances - at Amortised Cost	(720,642)	-	1,298,020,458	1,297,299,816	257,584,087	35,153,471	409,074,469	701,812,027	256,863,445	35,153,471	1,707,094,927	1,999,111,843
Debt and Other Instruments - at Amortised Cost	-	-	-	-	33,763,997	-	-	33,763,997	33,763,997	-	-	33,763,997
Financial Guarantees	-	-	-	-	(8,133,718)	-	-	(8,133,718)	(8,133,718)	-	-	(8,133,718)
Documentary Credit	-	-	-	-	(6,358,636)	-	-	(6,358,636)	(6,358,636)	-	-	(6,358,636)
Total (Note 10)	(720,642)	-	1,298,020,458	1,297,299,816	275,618,776	35,153,471	409,074,469	719,846,716	274,898,134	35,153,471	1,707,094,927	2,017,146,532

NOTES TO THE FINANCIAL STATEMENTS

11 PERSONNEL EXPENSES

		2018 Rs.	2017 Rs.
Salaries, Wages and Other Related Expenses		1,581,062,343	1,352,356,095
Defined Contribution Plan Expenses	- Employees' Provident Fund	146,482,888	139,988,871
	- Employees' Trust Fund	34,520,041	32,960,661
Defined Benefit Plan Expenses (Note 36.1)		66,708,219	59,590,098
Amortisation of Prepaid Staff Expenses		34,300,624	39,138,890
		1,863,074,115	1,624,034,615

12 OTHER OPERATING EXPENSES

	2018 Rs.	2017 Rs.
Directors' Emoluments (Note 12.1)	58,399,325	57,440,563
Auditors' Remuneration	4,169,900	3,946,380
Non Audit Fees to Auditors	1,253,879	1,226,282
Professional and Legal Expenses	46,135,845	33,941,775
Depreciation on Property, Plant and Equipment	159,440,256	180,426,625
Amortisation of Intangible Assets	34,370,887	33,064,752
Operating Lease Expenses	281,690,193	246,562,246
Administration and Establishment Expenses	553,016,405	505,119,371
Business Development Expenses	308,599,949	233,755,226
Other Expenses (Note 12.2)	998,670,847	812,761,758
	2,445,747,486	2,108,244,978

12.1 Directors Emoluments includes the Salaries, Bonuses and other related expenses of Chief Executive Officer/ Director and fees paid to Non Executive Directors including the Chairman.

12.2 Other Expense includes expenses incurred for insurance, printing & stationery, telephone & internet bills, travelling & transport and other premises and administration purposes.

13 TAXES AND LEVIES ON FINANCIAL SERVICES

	2018 Rs.	2017 Rs.
Value Added Tax on Financial Services	562,234,891	508,770,770
Nation Building Tax on Financial Services	74,964,652	67,706,772
Debt Repayment Levy	53,799,093	-
	690,998,636	576,477,542

14 INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31st December 2018 and 31st December 2017 are:

	2018 Rs.	2017 Rs.
Current Tax Expense		
Current Tax Charge on Profit for the Year (Note 14.1)	796,981,258	486,202,576
Over Provisions in respect of Previous Years	(168,535,433)	(22,628,893)
Total Current Tax Expense	628,445,825	463,573,683
Deferred Tax		
Relating to Origination and Reversal of Temporary Differences (Note 14.2)	(260,431,823)	21,380,430
Total Deferred Tax Expense	(260,431,823)	21,380,430
Total Income Tax Expense (Profit or Loss) - (Note 14.1)	368,014,002	484,954,113

The income tax provision for 1st January 2018 to 31st December 2018 period have been computed in accordance with the applicable tax legislations. Income tax provision for 1st January 2018 to 31st March 2018 period has been computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 whereas income tax provision for 1st April 2018 to 31st December 2018 has been computed in accordance with the provisions of the Inland Revenue Act No. 24 of 2017.

14.1 Reconciliation of the Total Tax Expense

A reconciliation between the tax expense and the accounting profit multiplied by the Statutory Income tax rate for the year ended 31st December 2018 and 31st December 2017 is as follows:

	2018 Rs.	2017 Rs.
Accounting Profit Before Tax	1,909,656,849	1,875,456,007
At Statutory Income Tax Rate of 28%	534,703,918	525,127,682
Non Deductible Expenses & Amounts	1,441,177,259	1,281,381,420
Deductible Expenses & Amounts	(1,125,103,822)	(1,208,196,805)
Income not Subject to Tax	(29,541,342)	(81,844,007)
Tax Effect of Business of Finance Leasing -Tax Losses	(24,254,755)	(30,265,714)
Current Tax on Profits (Note 14)	796,981,258	486,202,576
Over Provisions in respect of Previous Years	(168,535,433)	(22,628,893)
Current Tax Expense (Note 14)	628,445,825	463,573,683
Recognition of deferred tax on temporary differences (Note 14.2)	(260,431,823)	21,380,430
Total Income Tax Expense (Note 14)	368,014,002	484,954,113
Effective Tax Rate (Excluding Deferred tax and Adjustment for Current Income Tax of Prior Years)	41.73%	25.92%
Effective Tax Rate (Including Deferred tax and Adjustment for Current Income Tax of Prior Years)	19.27%	25.86%

NOTES TO THE FINANCIAL STATEMENTS

14.2 Deferred Tax

The following table shows deferred tax liabilities recorded on the Statement of Financial Position and changes recorded in the Statement of Comprehensive Income (Profit or loss and Other Comprehensive Income).

	2018				2017		
	Deferred Tax Liabilities (Statement of Financial Position)	Statement of Comprehensive Income		Statement of Changes in Equity	Deferred Tax Liabilities (Statement of Financial Position)	Statement of Comprehensive Income	
		Profit or Loss	Other Comprehensive Income	Impact on Adoption of SLFRS 9		Profit or Loss	Other Comprehensive Income
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Lease Rentals Receivable	461,812,910	(87,229,905)	-		549,042,815	115,575,307	-
Property, Plant and Equipment	353,614,717	2,689,594	-		350,925,123	(775,102)	175,463,878
Intangible Assets	71,582,397	17,507,065	-		54,075,332	14,754,914	-
Defined Benefit Plan Obligation	(80,035,128)	(10,884,685)	7,148,826		(76,299,269)	(8,123,130)	(11,879,204)
Impairment on Financial Assets	(783,027,664)	(177,890,114)	-	(382,382,589)	(222,754,961)	(161,874,327)	-
Tax Losses	(28,878,534)	(4,623,778)	-		(24,254,756)	61,822,768	-
Total	(4,931,302)	(260,431,823)	7,148,826	(382,382,589)	630,734,284	21,380,430	163,584,674

15 EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted Earnings Per Share is calculated by dividing the profit attributable to ordinary equity holders of Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As there were no potential ordinary equity outstanding at the year end, Diluted Earnings per Share is equal to the Basic Earnings per Share for the year.

The income and share data used in the Basic/Diluted Earnings Per Share calculations are detailed below;

	2018	2017
Profit Attributable to Ordinary Shareholders (Rs.)	1,541,642,847	1,390,501,894
Weighted Average Number of Ordinary Shares in Issue	442,561,629	420,358,086
Basic/Diluted Earnings Per Share (Rs.)	3.48	3.31

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these Financial Statements which would require the restatement of Earnings per Share.

There were no dividend payments during the year (2017 - Nil)

16 CASH AND CASH EQUIVALENTS

	2018 Rs.	2017 Rs.
Cash in Hand (Note 45)	1,394,232,445	1,404,367,099
Balances with Foreign Banks (Note 45)	820,235,019	260,673,566
Less: Allowance for impairment losses (Note 16.1)	(361,116)	-
	2,214,106,348	1,665,040,665

16.1 Allowance for Impairment Losses

Balances with Foreign Banks

The table below shows the credit quality and the maximum exposure to credit risk based on the year-end stage classification. The amounts presented are gross of impairment allowances. The policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 43.2.2.6.

Stage Classification

	2018 Rs.	2017 Rs.
Balances with Foreign Banks (Note 45)	820,235,019	260,673,566
Total	820,235,019	260,673,566

All balances held with foreign banks are 'stage 1' assets.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Balances with Foreign Banks is as follows:

Gross Carrying Amount

	Balance as at 01/01/2018 (SLFRS 9) Rs.	Net Increase/(Decrease) during the Year Rs.	Balance as at 31/12/2018 (SLFRS 9) Rs.
Balances with Foreign Banks (Note 45)	260,673,566	559,561,453	820,235,019
	260,673,566	559,561,453	820,235,019

ECL Allowances

	ECL Allowances as at 01/01/2018 (SLFRS 9) Rs.	Net Increase/(Decrease) during the Year Rs.	ECL Allowances as at 31/12/2018 (SLFRS 9) Rs.
Balances with Foreign Banks			
Collective	952,587	(591,471)	361,116
	952,587	(591,471)	361,116

The decrease in ECL's of the portfolio was driven by changes in the composition of the portfolio and changes in PD's.

NOTES TO THE FINANCIAL STATEMENTS

17 BALANCES WITH CENTRAL BANK OF SRI LANKA

	2018 Rs.	2017 Rs.
Statutory Deposit with Central Bank of Sri Lanka	6,481,993,762	6,884,017,912
	6,481,993,762	6,884,017,912

Balances with Central Bank of Sri Lanka represent the cash balances that is required to be maintained as per the provisions of the Section 93 of the Monetary Law Act. The minimum cash reserve requirement of Rupee Deposit liabilities of Domestic Banking Unit as at 31st December 2018 was 6% (2017 - 7.5%). The Statutory deposit with Central Bank of Sri Lanka is not available for use in Bank's day to day operations.

18 PLACEMENTS WITH BANKS

	2018 Rs.	2017 Rs.
Placements with Banks	-	237,368,087
Less: Allowance for impairment losses	-	-
	-	237,368,087

18.1 Allowance for impairment losses - Placements with Banks

The table below shows the credit quality and the maximum exposure to credit risk based on the year-end stage classification. The amounts presented are gross of impairment allowances. Policies on whether ECL allowances are calculated on an individual or collective basis are set out in 43.2.2.6.

Stage Classification

	2018 Rs.	2017 Rs.
Placements with Banks	-	237,368,087
Total	-	237,368,087

All placements with banks are 'stage 1' assets.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Placements with Banks is as follows:

Gross Carrying Amount

	Balance as at 01/01/2018 (SLFRS 9) Rs.	Net Decrease During the Year Rs.	Balance as at 31/12/2018 (SLFRS 9) Rs.
Collective	237,368,087	(237,368,087)	-
	237,368,087	(237,368,087)	-

ECL Allowances

	ECL Allowances as at 01/01/2018 (SLFRS 9) Rs.	Allowances on Assets settled Rs.	ECL Allowances as at 31/12/2018 (SLFRS 9) Rs.
Collective	645,483	(645,483)	-
	645,483	(645,483)	-

The decrease in ECL's of the portfolio was driven by decrease in the gross size of the portfolio.

19 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period end and are indicative of neither the market risk nor the credit risk.

	2018			2017		
	Assets Rs.	Liabilities Rs.	Notional Amount Rs.	Assets Rs.	Liabilities Rs.	Notional Amount Rs.
Forward Foreign Exchange Contracts	209,701	114,235	775,562,653	16,091,393	7,366,561	1,085,964,711
	209,701	114,235	775,562,653	16,091,393	7,366,561	1,085,964,711

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank. The Bank's exposure under derivative contracts are closely monitored as part of the overall management of the Bank's market risk.

Forward Foreign Exchange Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over the counter market and are subject to credit risk and liquidity risk and result in market exposure. The Bank has credit exposure to the counterparties of forward contracts which are settled on gross basis therefore, considered to bear a higher liquidity risk than the futures contracts that are settled on a net basis.

Currency Swaps

Currency Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying foreign currency rate. In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Fair Values

Disclosures concerning the fair value of derivatives are provided in Note 42.

The presentation and classification of the previous year have been amended for better presentation and to be comparable with those of the current year.

NOTES TO THE FINANCIAL STATEMENTS

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 Rs.	2017 Rs.
Quoted Equities (Note 20.1)	11,628,595	12,107,420
Sri Lanka Government Securities - Treasury Bills and Bonds	-	4,537,081,609
	11,628,595	4,549,189,029

20.1 Quoted Equities

	2018			2017		
	No. of Shares	Cost Rs.	Fair Value Rs.	No. of Shares	Cost Rs.	Fair Value Rs.
Vallibel One PLC	684,035	17,100,875	11,628,595	684,035	17,100,875	12,107,420
		17,100,875	11,628,595		17,100,875	12,107,420
Carrying Value			11,628,595			12,107,420

21 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES

	2018 Rs.
Gross Loans and Advances (Note 21.1 & Note 21.2)	113,494,424,234
Less: Individual Impairment (Note 21.5)	(2,366,200,677)
Collective Impairment (Note 21.5)	(2,959,362,092)
	108,168,861,465

21.1 Product-wise Analysis

	2018 Rs.
Term Loans	70,870,588,455
Overdrafts	17,936,817,659
Trade Finance	4,036,976,250
Lease Rentals Receivable (Note 48.2)	9,804,132,849
Others	10,845,909,021
Total (Note 21.5)	113,494,424,234

21.2 Currency-wise Analysis

	2018 Rs.
Sri Lankan Rupee	103,345,693,337
United States Dollar	3,917,081,950
Japanese Yen	4,531,567,755
Euro	1,540,219,304
Great Britain Pound	53,485,881
Others	106,376,007
Total (Note 21.5)	113,494,424,234

21.3 Industry Analysis

Industry-wise analysis of the Loans and Advances are found in Note 43.2.9.2 (Concentration of Credit Risk - Industry Analysis).

21.4 Individually Impaired Loans and Advances

	2018 Rs.
Gross Loans and Advances, individually determined to be impaired, before deducting Impairment Losses	3,447,616,959
Less: Individual Impairment Losses	(2,366,200,677)
Net Exposure	1,081,416,282
Impairment Cover Ratio (Individual Impairment Losses to Gross Individually Impaired Loans & Advances)	68.63%
Impaired Loans and Advances Ratio (Individually Impaired Loans and Advances to Gross Loans and Advances)	3.04%

21.5 Allowances for Impairment - Loans and Advances

The table below shows year-end stage classification. The amounts presented are gross of impairment allowances. Accounting policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 43.2.2.6.

Stage Classification

	2018							
	Stage 1		Stage 2		Stage 3		Total	
	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.
Term Loans	-	59,608,416,034	-	6,884,041,583	1,219,717,955	3,158,412,883	1,219,717,955	69,650,870,500
Overdrafts	-	11,958,194,399	-	3,927,798,344	1,142,971,134	907,853,782	1,142,971,134	16,793,846,525
Trade Finance	-	2,899,102,317	-	724,630,608	346,600,992	66,642,333	346,600,992	3,690,375,258
Lease Rentals Receivable	-	4,315,257,759	-	5,007,251,864	206,034,889	275,588,337	206,034,889	9,598,097,960
Others	-	9,385,276,126	-	531,120,374	532,291,990	397,220,531	532,291,990	10,313,617,031
	-	88,166,246,635	-	17,074,842,773	3,447,616,960	4,805,717,866	3,447,616,960	110,046,807,274

There were no purchased or originated credit impaired (POCI) assets within Loans and Advances at the year end.

NOTES TO THE FINANCIAL STATEMENTS

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Loans and Advances is as follows:

Gross Carrying Amount

	Stage	Balance as at 01/01/2018 (SLFRS 9)	Net Increase / (Decrease) during the year*	Transfers to			Amounts written off during the year	Balance as at 31/12/2018 (SLFRS 9)
				Stage 1	Stage 2	Stage 3		
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Term Loans								
Individual	Stage 1	25,497,768	(800,000)	(24,697,768)	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	576,455,918	378,448,993	61,877,550	246,576,164	(43,640,670)	-	1,219,717,955
Collective	Stage 1	52,072,280,414	9,538,759,348	1,054,203,522	(2,293,262,639)	(763,564,611)	-	59,608,416,034
	Stage 2	4,427,523,136	1,870,409,401	(1,033,206,025)	2,072,641,310	(453,326,239)	-	6,884,041,583
	Stage 3	1,786,111,020	197,936,650	(58,177,279)	(25,954,835)	1,260,531,520	(2,034,193)	3,158,412,883
Overdrafts			-					
Individual	Stage 1	83,418	-	(83,418)	-	-	-	-
	Stage 2	106	-	-	(106)	-	-	-
	Stage 3	710,616,928	(32,536,283)	260,345,887	124,318,169	80,226,433	-	1,142,971,134
Collective	Stage 1	12,769,579,463	1,530,705,525	792,678,009	(2,846,172,483)	(288,596,115)	-	11,958,194,399
	Stage 2	3,503,306,181	(1,414,363,344)	(921,780,297)	2,797,770,152	(37,134,348)	-	3,927,798,344
	Stage 3	719,519,887	149,905,778	(131,160,181)	(75,915,732)	245,504,030	-	907,853,782
Trade Finance								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	281,216,253	5,240,336	53,612,152	6,532,251	-	-	346,600,992
Collective	Stage 1	2,739,375,385	181,811,342	(10,487,004)	-	(11,597,406)	-	2,899,102,317
	Stage 2	928,572,547	(134,415,198)	(43,125,148)	(6,532,251)	(19,869,342)	-	724,630,608
	Stage 3	597,625,540	(562,449,955)	-	-	31,466,748	-	66,642,333
Lease Rentals Receivable								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	110,187,133	3,920,734	91,927,022		-	206,034,889
Collective	Stage 1	4,015,955,127	688,871,469	488,743,504	(845,586,352)	(32,725,989)	-	4,315,257,759
	Stage 2	5,167,467,476	(349,326,167)	(487,479,336)	788,929,783	(112,339,892)	-	5,007,251,864
	Stage 3	266,214,582	(75,881,572)	(5,184,902)	(35,270,453)	145,065,881	(19,355,199)	275,588,337
Others								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	485,834,561	88,783,293	-	-	(42,325,864)	-	532,291,990
Collective	Stage 1	8,516,960,869	1,199,525,798	127,365,318	(295,802,155)	(162,773,704)	-	9,385,276,126
	Stage 2	873,148,543	(408,136,285)	(125,650,839)	299,276,235	(107,517,280)	-	531,120,374
	Stage 3	243,751,221	858,430	(1,714,479)	(3,474,080)	312,616,848	(154,817,409)	397,220,531
		100,707,096,343	12,963,534,692	-	-	-	(176,206,801)	113,494,424,234

*This includes the effect of new disbursements, utilisation, repayments, settlements as well as effects of movements in foreign exchange rates.

ECL Allowances

	Stage	Balance as at 01/01/2018 (SLFRS 9) Rs.	Charge / (Reversals) during the Year Rs.	Amounts Written Off Rs.	Balance as at 31/12/2018 (SLFRS 9) Rs.
Term Loans					
Individual	Stage 1	714,245	(714,245)	-	-
	Stage 2	-	-	-	-
	Stage 3	226,108,759	558,103,357	-	784,212,116
Collective	Stage 1	317,775,496	101,900,302	-	419,675,798
	Stage 2	203,648,143	77,876,826	-	281,524,969
	Stage 3	346,787,531	263,519,188	(2,034,193)	608,272,526
Overdrafts					
Individual	Stage 1	6,397	(6,397)	-	-
	Stage 2	-	-	-	-
	Stage 3	437,237,078	379,415,248	-	816,652,326
Collective	Stage 1	371,098,405	30,901,726	-	402,000,131
	Stage 2	225,570,680	(34,364,941)	-	191,205,739
	Stage 3	312,945,173	24,538,369	-	337,483,542
Trade Finance					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	89,073,335	96,935,585	-	186,008,920
Collective	Stage 1	9,807,679	(1,592,782)	-	8,214,897
	Stage 2	36,974,749	(24,202,746)	-	12,772,003
	Stage 3	85,972,466	(78,576,528)	-	7,395,938
Lease Rentals Receivable					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	-	74,446,037	-	74,446,037
Collective	Stage 1	3,850,967	14,914,631	-	18,765,598
	Stage 2	37,763,031	9,878,320	-	47,641,351
	Stage 3	70,649,587	(13,580,851)	(19,355,199)	37,713,537
Others					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	315,760,897	189,120,381	-	504,881,278
Collective	Stage 1	224,262,578	111,460,060	-	335,722,638
	Stage 2	60,015,385	5,966,013	-	65,981,398
	Stage 3	126,635,146	213,174,290	(154,817,409)	184,992,027
		3,502,657,727	1,999,111,843	(176,206,801)	5,325,562,769

The increase/(decrease) in ECL's of the portfolios were driven by an increase/(decrease) in the gross size of the portfolio & credit limits, movements between stages as a result of the change in credit risk, changes in Probability of Defaults, Loss Given Defaults, Credit Conversion Factors and changes in economic conditions.

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

	2018 Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds (Note 22.3)	20,874,625,206
Less: Allowance for impairment losses (Note 22.3)	-
Debentures - Quoted (Note 22.3)	1,619,436,757
Less: Allowance for impairment losses (Note 22.3)	(626,587)
Securities Purchased Under Resale Agreements (Note 22.3)	848,270,844
Less: Allowance for impairment losses (Note 22.3)	-
Sri Lanka Government Securities - Sri Lanka Development Bonds (Note 22.3)	10,816,056,405
Less: Allowance for impairment losses (Note 22.3)	(83,205,046)
	34,074,557,579

22.1 Currency - wise Analysis (Gross)

	2018 Rs.
Sri Lankan Rupee	23,342,332,807
United States Dollar	10,816,056,405
	34,158,389,212

22.2 Collateralisation - wise Analysis (Gross)

	2018 Rs.
Pledged as Collateral	3,307,795,600
Un-encumbered	30,850,593,612
	34,158,389,212

22.3 Allowance for Impairment - Debt and Other Instruments

The table below shows the credit quality and the maximum exposure to credit risk based on the product and year-end stage classification. The amounts presented are gross of impairment allowances. Accounting Policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 43.2.2.6.

Stage Classification

	2018			
	Stage 1		Total	
	Individual	Collective	Individual	Collective
	Rs.	Rs.	Rs.	Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds	-	20,874,625,206	-	20,874,625,206
Quoted Debentures	-	1,619,436,757	-	1,619,436,757
Securities Purchased under Resale Agreements	-	848,270,844	-	848,270,844
Sri Lanka Government Securities - Sri Lanka Development Bonds	-	10,816,056,405	-	10,816,056,405
	-	34,158,389,212	-	34,158,389,212

All Debt Instruments at Amortised Cost are 'Stage 1' assets.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Debt & Other Instruments at amortised cost is, as follows:

Gross Carrying Amount

	Balance as at 01/01/2018 (SLFRS 9) Rs.	Net Increase / (Decrease) During the Year Rs.	Balance as at 31/12/2018 (SLFRS 9) Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds			
Collective	12,287,192,426	8,587,432,780	20,874,625,206
Debentures - Quoted			
Collective	1,997,500,223	(378,063,466)	1,619,436,757
Securities Purchased Under Resale Agreements			
Collective	186,289,553	661,981,291	848,270,844
Sri Lanka Government Securities - Sri Lanka Development Bonds			
Collective	8,865,418,440	1,950,637,965	10,816,056,405
	23,336,400,642	10,821,988,570	34,158,389,212

NOTES TO THE FINANCIAL STATEMENTS

ECL Allowances

	Balance as at 01/01/2018 (SLFRS 9) Rs.	Charge for the Year Rs.	Balance as at 31/12/2018 (SLFRS 9) Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds			
Collective	-	-	-
Debentures - Quoted			
Collective	615,295	11,293	626,588
Securities Purchased Under Resale Agreements			
Collective	-	-	-
Sri Lanka Government Securities - Sri Lanka Development Bonds			
Collective	49,452,341	33,752,704	83,205,045
	50,067,636	33,763,997	83,831,633

The changes in ECLs of the portfolio is driven by an increase / (decrease) in the gross size of the portfolio changes in default probabilities (PD's) and deterioration of economic conditions.

23 LOANS AND RECEIVABLES TO BANKS

	2017 Rs.
Loans and Receivables to Banks (Note 23.1)	653,087,844
	653,087,844

23.1 Product-wise Analysis

	2017 Rs.
Loans and Advances	
Term Loans	248,283,332
	248,283,332
Other Receivables	
Debentures - Quoted	404,804,512
Securities Purchased Under Resale Agreements - Banks	-
	404,804,512
Total (Note 23)	653,087,844

23.2 All Loans & Receivables to Banks are exposures denominated in Sri Lankan Rupees.

23.3 The Bank has not recognised any impairment losses with regard to Loans and Receivables to Banks as per LKAS 39.

24 LOANS AND RECEIVABLES TO OTHER CUSTOMERS

	2017 Rs.
Gross Loans and Receivables (Note 24.1 & Note 24.2)	111,351,500,047
Less: Individual Impairment (Note 24.5)	(1,068,900,861)
Collective Impairment (Note 24.5)	(1,142,663,136)
	109,139,936,050

24.1 Product-wise Analysis

	2017 Rs.
Loans and Advances	
Overdrafts	17,703,444,369
Trade Finance	4,546,527,810
Credit Cards	4,742,699,375
Pawning & Ran Loans	2,437,587,683
Staff Loans	821,812,942
Term Loans	
Short - term	8,255,168,305
Long - term	50,632,699,952
Lease Rentals Receivable (Note 48.2)	9,449,637,185
Margin Trading Advances	1,467,071,382
Others	650,447,340
	100,707,096,343
Other Receivables	
Government of Sri Lanka Securities - Sri Lanka Development Bonds	8,865,418,440
Securities Purchased Under Resale Agreements - Other Customers	186,289,553
Debentures - Quoted	1,592,695,711
	10,644,403,704
Total (Note 24)	111,351,500,047

24.2 Currency-wise Analysis

	2017 Rs.
Sri Lankan Rupee	95,016,185,333
United States Dollar	12,290,379,342
Japanese Yen	3,179,316,645
Euro	801,788,907
Great Britain Pound	63,829,820
Total (Note 24)	111,351,500,047

NOTES TO THE FINANCIAL STATEMENTS

24.3 Industry-wise Analysis

Industry-wise analysis of the Loans and Receivables to Other Customers are given in Note 43.2.9.2.

24.4 Individually Impaired Loans and Receivables

	2017 Rs.
Gross amount of Loans and Receivables individually determined to be impaired, before deducting the Individual Impairment Losses	2,079,687,957
Less: Individual Impairment Losses (Note 24.5)	(1,068,900,861)
Net Exposure	1,010,787,096
Impairment Cover Ratio (Individual Impairment Losses as a % of Gross Individually Impaired Loans & Receivables)	51.40%
Impaired Loans and Receivable Ratio (Individually Impaired Loans and Receivables to Gross Loans and Receivables)	1.87%

24.5 Movement in Allowances for Individual and Collective Impairment during 2017

	Individual Rs.	Collective Rs.	Total Rs.
Balance as at 1st January 2017	1,693,536,076	982,490,522	2,676,026,598
Charge for the year (Note 10)	337,264,627	160,172,614	497,437,241
Write offs during the year	(786,966,108)	-	(786,966,108)
Interest Accrued on Impaired Loans and Receivables	(174,933,734)	-	(174,933,734)
Balance as at 31st December 2017 (Note 24)	1,068,900,861	1,142,663,136	2,211,563,997

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 Rs.
Equities - Unquoted (Note 26.1)	6,157,847
	6,157,847

All unquoted FVOCI instruments are recorded at cost since its, fair value cannot be reliably estimated. There is no market for these investments, and the Bank intends to hold these for long term.

26 FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

	2017 Rs.
Equities - Unquoted (Note 26.1)	6,157,847
	6,157,847

All unquoted Available for Sale Equities are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold these for long term.

26.1 Equities - Unquoted

	2018		2017	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
Credit Information Bureau of Sri Lanka (CRIB)	300	30,000	300	30,000
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	8	4,127,847	8	4,127,847
Lanka Clear (Private) Limited	100,000	1,000,000	100,000	1,000,000
Lanka Financial Services Bureau Limited (LFSB)	100,000	1,000,000	100,000	1,000,000
		6,157,847		6,157,847

27 FINANCIAL INVESTMENTS - HELD TO MATURITY

	2017 Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds (Note 27.1 and Note 27.2)	12,287,192,426
	12,287,192,426

27.1 Currency-wise Analysis

	2017 Rs.
Sri Lankan Rupee	12,287,192,426
Other Currencies	-
Total (Note 27)	12,287,192,426

27.2 Collateralisation-wise Analysis

	2017 Rs.
Pledged as a Collateral	3,722,571,200
Un-encumbered	8,564,621,226
Total (Note 27)	12,287,192,426

NOTES TO THE FINANCIAL STATEMENTS

28 PROPERTY, PLANT AND EQUIPMENT

28.1 Cost/Fair Value

	Freehold Land Rs.	Freehold Buildings Rs.	Office Equipments Rs.	Computer Hardware & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
As at 1st January 2018	1,014,910,000	448,141,000	403,211,771	571,540,456	652,378,317	20,297,620	3,110,479,164
Additions	-	-	31,228,633	39,697,121	33,812,072	-	104,737,826
Disposals	-	-	(1,746,173)	(18,619,259)	(788,476)	-	(21,153,908)
As at 31st December 2018	1,014,910,000	448,141,000	432,694,231	592,618,318	685,401,913	20,297,620	3,194,063,082

28.2 Depreciation & Impairment

	Freehold Land Rs.	Freehold Buildings Rs.	Office Equipments Rs.	Computer Hardware & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
As at 1st January 2018	-	3,837,147	312,283,747	383,821,383	414,745,414	5,820,954	1,120,508,645
Depreciation Charge for the Year	-	15,285,908	30,405,565	50,631,088	59,077,695	4,040,000	159,440,256
Disposals	-	-	(1,500,230)	(18,519,722)	(439,806)	-	(20,459,758)
As at 31st December 2018	-	19,123,055	341,189,082	415,932,749	473,383,303	9,860,954	1,259,489,143

There were no impairement losses recognised on Property, Plant and Equipment as at 31st December 2018 (2017 - Nil).

28.3 Net Book Value

	Freehold Land Rs.	Freehold Buildings Rs.	Office Equipments Rs.	Computer Hardware & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
As at 31st December 2017	1,014,910,000	444,303,853	90,928,024	187,719,073	237,632,903	14,476,666	1,989,970,519
As at 31st December 2018	1,014,910,000	429,017,945	91,505,149	176,685,569	212,018,610	10,436,666	1,934,573,939

28.4 There were no capital work in progress outstanding as at the Statement of Financial Position Date. (2017- Nil)

28.5 Freehold Land and Building - Addresses, Locations and Extents

Address	Extent		31st December 2018 Revalued Amount		31st December 2017 Revalued Amount	
	Land (Perches)	Building (Square Feet)	Land Rs.	Building Rs.	Land Rs.	Building Rs.
No 450, Galle Road, Colombo 03	23.66	41,420	437,710,000	434,491,000	437,710,000	434,491,000
No: 08, Sea Avenue, Colombo 03	18.55	-	222,600,000	-	222,600,000	-
No: 10, Sea Avenue, Colombo 03	19.80	-	237,600,000	-	237,600,000	-
No: 12 & 12 1/ 1, Sea Avenue, Colombo 03	9.75	3,900	117,000,000	13,650,000	117,000,000	13,650,000
Total (Note 42.2)			1,014,910,000	448,141,000	1,014,910,000	448,141,000

The market values of land and building are not significantly different from book values as at the date of the Statement of Financial Position.

28.6 All Freehold Land and Building owned by the Bank have been revalued by Mr. J.M.S. Bandara, an Independent Chartered Valuation Surveyor having recent experience of the location and the category of the assets valued. Details of Revalued properties are disclosed in Note 28.8. Revaluation surplus arising out of the revaluation has been transferred to Revaluation Reserve.

Significant Un Observable valuation Input

Land: Price Per Perch Rs. 12,000,000 - Rs. 18,500,000

Building : Monthly rent per square feet - Rs. 150

Significant increase/decrease in estimated price per perch/ rent per square feet would result in a significant higher/lower fair value of land and buildings.

Other fair value related disclosures on Revalued Land and Building are provided in Note 42.2.

28.7 The Carrying amount of revalued Land and Building, if they were carried at cost less depreciation, would be as follows;

	2018			2017		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Freehold Land	413,652,558	-	413,652,558	413,652,558	-	413,652,558
Freehold Building	223,252,527	63,690,325	159,562,202	223,252,527	58,109,012	165,143,515
Total	636,905,085	63,690,325	573,214,760	636,905,085	58,109,012	578,796,073

28.8 Details of the Land and Building stated at revalued amounts as at 31st December 2018 are given below;

Location/Address	Valuer Name	Date of Valuation	Method of Valuation	Land		Building	
				Cost Rs.	Revalued Amount Rs.	Cost Rs.	Revalued Amount Rs.
No 450, Galle Road, Colombo 03	Mr.J.M.S.Bandara	28th June 2017	Investment Method / Income Method	183,969,895	437,710,000	212,332,737	434,491,000
No: 08, Sea Avenue, Colombo 03	Mr.J.M.S.Bandara	28th June 2017	Market Comparable Method	106,166,453	222,600,000	-	-
No: 10, Sea Avenue, Colombo 03				82,437,000	237,600,000	-	-
No: 12 & 12 1/ 1, Sea Avenue, Colombo 03				41,079,210	117,000,000	10,919,790	13,650,000

28.9 A class wise analysis of the cost/fair value of fully depreciated Property, Plant and Equipment of the Bank which are still in use at the Date of the Statement of Financial Position are as follows;

	2018	2017
	Rs.	Rs.
Office Equipments	259,035,280	200,776,075
Computer Hardware and Equipments	270,747,227	231,787,180
Furniture & Fittings	263,687,095	197,111,662
Motor Vehicles	97,620	97,620
	793,567,222	629,772,537

NOTES TO THE FINANCIAL STATEMENTS

28.10 There were no Property, Plant and Equipment identified as temporarily idle as at the date of the Statement of Financial Position (2017- Nil).

28.11 The following Property, Plant and Equipment were retired from active use as at the Date of the Statement of Financial Position.

	2018 Rs.	2017 Rs.
Computer Hardware and Equipments	21,461,123	76,519,571
	21,461,123	76,519,571

28.12 There were no restrictions on the title of Property, Plant and Equipments as at the Statement of Financial Position date (2017 - Nil).

28.13 There were no items of Property, Plant and Equipments pledged as securities against liabilities as at the Statement of Financial Position date (2017 - Nil).

29 INTANGIBLE ASSETS

	Total Rs.
Computer Software	
Cost	
As at 1st January 2018	504,364,806
Additions	55,063,651
Disposals	-
As at 31st December 2018	559,428,457
Amortisation	
As at 1st January 2018	219,974,489
Amortisation Charge for the Year (Note 12)	34,370,887
Disposals	-
As at 31st December 2018	254,345,376
Net Book Value	
As at 1st January 2018	284,390,317
As at 31st December 2018	305,083,081

29.1 Intangible Assets include the Cost of Core Banking Softwares Licenses and Other Softwares.

29.2 There were no intangible asset items pledged as a security against liabilities as at the date of the Statement of Financial Position (2017 - Nil).

29.3 There were no borrowing costs directly related to intangible assets acquired during the year (2017 - Nil).

29.4 There were no impairment losses recognised to profit or loss during the year with regard to intangible assets (2017 - Nil).

30 OTHER ASSETS

	2018 Rs.	2017 Rs.
Deposits and Prepayments	289,873,364	325,287,093
Prepaid Staff Cost	328,140,367	290,441,546
Other Receivables	206,165,473	173,514,336
	824,179,204	789,242,975

Other receivables includes statutory receivables and other balances due in the ordinary course of business.

31 DUE TO BANKS

	2018 Rs.	2017 Rs.
Call Money Borrowings	980,579,768	-
Re-finance Borrowings	179,595,889	111,418,603
Standing Lending Facility Borrowings	-	1,726,243,990
Call and Term Deposits - Banks	-	515,919,839
Balances with Foreign Banks	584,031,188	144,318,812
	1,744,206,845	2,497,901,244

32 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS

	2018 Rs.	2017 Rs.
Due to Depositors (Note 32.1 and Note 32.2)	118,627,348,744	107,193,029,640
	118,627,348,744	107,193,029,640

32.1 Product - wise Analysis

	2018 Rs.	2017 Rs.
Demand Deposits	4,871,474,859	4,815,484,655
Savings Deposits	14,404,715,250	14,159,616,179
Time Deposits	94,475,048,539	83,200,483,060
Certificate of Deposits	4,359,722,898	4,603,818,819
Margin Deposits	516,387,198	413,626,927
Total (Note 32)	118,627,348,744	107,193,029,640

NOTES TO THE FINANCIAL STATEMENTS

32.2 Currency - wise Analysis

	2018 Rs.	2017 Rs.
Sri Lankan Rupee	107,090,457,200	98,574,958,723
United States Dollar	9,369,827,117	6,730,046,116
Great Britain Pound	470,826,151	511,125,286
Australian Dollar	830,050,498	552,802,708
Euro	171,521,061	157,885,878
Others	694,666,717	666,210,929
Total (Note 32)	118,627,348,744	107,193,029,640

33 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEBT SECURITIES HOLDERS

	2018 Rs.	2017 Rs.
Securities Sold under Repurchase Agreements (Note 33.1)	3,091,635,968	1,732,624,730
Unsecured Term Facility Borrowings	10,203,968,478	6,733,162,061
	13,295,604,446	8,465,786,791

33.1 Securities Sold under Repurchase Agreements

	2018 Rs.	2017 Rs.
Due to Banks	1,500,000,000	-
Due to Other Customers	1,591,635,968	1,732,624,730
	3,091,635,968	1,732,624,730

33.2 Unsecured Term Facility Borrowings - Capital

	Senior		Total
	Fixed Rs.	Floating Rs.	Rs.
As at 1st January 2018	1,191,000,000	5,566,187,500	6,757,187,500
Received during the year	870,094,225	2,000,000,000	2,870,094,225
Repayments during the year	-	(500,000,000)	(500,000,000)
Exchange Rate Difference	-	1,067,562,500	1,067,562,500
As at 31st December 2018	2,061,094,225	8,133,750,000	10,194,844,225

33.3 Details of Unsecured Term Facility Borrowings as at 31st December 2018 - Capital

Lender	Receipt Date	Maturity Date	Rate of Interest	Amount Outstanding	
				Original Loan Currency	Local Currency
GCPF	01st October 2013	30th September 2020	6 Month LIBOR + 4%	USD 10,000,000	Rs. 1,830,000,000
GCPF	03rd September 2015	2nd September 2022	6 Month LIBOR + 4%	USD 10,000,000	Rs. 1,830,000,000
GCPF	06th October 2017	7th October 2024	6 Month LIBOR + 3.75%	USD 2,000,000	Rs. 366,000,000
GCPF	22nd December 2017	7th October 2024	6 Month LIBOR + 3.75%	USD 5,000,000	Rs. 915,000,000
MSME	19th December 2016	18th December 2021	3 Month LIBOR + 4%	USD 9,250,000	Rs. 1,692,750,000
MSME	21st December 2016	19th July 2021	11.50%	Rs. 1,191,000,000	Rs. 1,191,000,000
MSME	9th July 2018	29th September 2021	11.25%	Rs. 870,094,225	Rs. 870,094,225
National Savings Bank	04th June 2018	04th June 2019	Weekly AWPLR + 2.5% (Re-priced Quarterly)	Rs. 500,000,000	Rs. 500,000,000
National Savings Bank	04th June 2018	04th December 2019	Weekly AWPLR + 2.5% (Re-priced Quarterly)	Rs. 500,000,000	Rs. 500,000,000
National Savings Bank	04th June 2018	04th June 2020	Weekly AWPLR + 2.5% (Re-priced Quarterly)	Rs. 500,000,000	Rs. 500,000,000
					Rs. 10,194,844,225

GCPF - Global Climate Partnership Fund S.A. SICAV-SIF
MSME - Micro, Small & Medium Enterprises Bonds S.A.

34 OTHER PROVISIONS AND ACCRUALS

	2018 Rs.	2017 Rs.
Utility Payables	92,074,624	84,051,330
Other Accruals	116,323,388	145,484,249
	208,398,012	229,535,579

35 OTHER LIABILITIES

	2018 Rs.	2017 Rs.
Cheque Pending Realisation	10,236,962	4,130,124
Claims Payable	194,855,631	335,492,714
Allowance for Impairment on Guarantees and Documentary Credit (Note 35.1)	8,400,315	-
Defined Benefit Plan - Retiring Gratuity Obligation (Note 36.2)	285,839,742	272,497,390
Other Creditors	1,809,713,434	497,930,093
	2,309,046,084	1,110,050,321

Other creditors includes tax (other than income tax) & other statutory payables and other miscellaneous payables in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS

35.1 Provision for Impairment (ECL) on Financial Guarantees and Documentary Credit

	ECL Allowances as at 01/01/2018 (SLFRS 9) Rs.	Reversal for the Year Rs.	ECL Allowances as at 31/12/2018 (SLFRS 9) Rs.
Financial Guarantees			
Collective	14,642,330	(8,133,718)	6,508,612
Documentary Credit			
Collective	8,250,339	(6,358,636)	1,891,703
	22,892,669	(14,492,354)	8,400,315

The nominal values of Financial Gurantees and Documentary Credit are disclosed in Note 47.

All Financial Guarantees and Documentary Credit are stage 1 exposures.

The decrease in ECLs of the Financial Guarantees and Documentary Credit was driven by an decrease in the gross size of the portfolios, changes in PDs', LGDs', CCF's and changes in economic conditions.

36 DEFINED BENEFIT PLAN - RETIRING GRATUITY OBLIGATION

The amounts recognised in the Statement of Comprehensive Income in respect of Defined Benefit Plan Costs are as follows;

36.1 Defined Benefit Plan Expense

	2018 Rs.	2017 Rs.
Service Cost		
Current Service Cost	39,458,480	35,462,840
Interest Expense	27,249,739	24,127,258
Components recognised in the Profit or Loss (Note 11)	66,708,219	59,590,098
Re-measurement of Net Defined Benefit Obligations		
Actuarial (Gains)/Losses	(25,531,522)	42,425,727
Components recognised in Other Comprehensive Income	(25,531,522)	42,425,727

36.2 Defined Benefit Plan - Retiring Gratuity Obligations

The movements in the present value of the Defined Benefit Plan Obligation are as follows:

	2018 Rs.	2017 Rs.
Balance at the Beginning of the Year	272,497,390	201,060,482
Current Service Cost	39,458,480	35,462,840
Interest Cost	27,249,739	24,127,258
Actuarial (Gains)/Losses Due to Changes in Assumptions	(25,531,522)	42,425,727
Benefits Paid during the Year	(27,834,345)	(30,578,917)
Balance at the End of the Year (Note 35)	285,839,742	272,497,390

Actuarial Valuation of Retiring Gratuity Obligation as at 31st December 2018 was carried out by Mr. Pushpakumara Gunasekera, AIAA on behalf of Messrs. Smiles Global (Pvt) Ltd., a firm of professional actuaries using "Projected Unit Credit Method" as recommended by LKAS 19 "Employee Benefits".

The principal assumptions used in determining the Retiring Benefit Obligation are given below;

	2018	2017
Discount Rate	12% p.a	10% p.a
Salary Increment Rate	9% p.a	9% p.a

The demographic assumptions underlying the valuation are retirement age (55 years), staff turnover rate (17%), early withdrawal from service, retirement on medical grounds, death before and after retirement, etc. Assumptions regarding future mortality are based on 1967-70 Mortality Table and issued by the Institute of Actuaries, London.

Defined Benefit Plan Obligation is not externally funded, hence no contributions are expected for year 2018. The Defined Benefit Plan Obligation is recorded under 'Other Liabilities' in the Statement of Financial Position. Actuarial Gains/(Losses) on Defined Benefit Plan is recognised in Other Comprehensive Income for the year.

36.3 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement as at 31st December 2018. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment rate on the profit or loss and Retiring Gratuity obligation for the year.

		2018		2017	
Increase / (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income (OCI) Rs.	Sensitivity Effect on Defined Benefit Obligation Rs.	Sensitivity Effect on Statement of Comprehensive Income (OCI) Rs.	Sensitivity Effect on Defined Benefit Obligation Rs.
1%	-	10,422,916	(10,422,916)	12,524,874	(12,524,874)
(1%)	-	(11,307,941)	11,307,941	(13,766,031)	13,766,031
-	1%	(12,561,795)	12,561,795	(17,714,526)	17,714,526
-	(1%)	11,758,036	(11,758,036)	16,309,212	(16,309,212)

36.4 Maturity Profile of Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at date of Statement of Financial Position is given below;

	2018	2017
Weighted Average Duration of Defined Benefit Obligation (Years)	4.61	4.95
Average Time to Benefit Payout (Years)	5.51	4.42

NOTES TO THE FINANCIAL STATEMENTS

36.5 Distribution of Defined Benefit Obligation Over Future Lifetime

The following table demonstrates distribution of the future working lifetime of the Defined Benefit Obligation as at the Statement of Financial Position Date.

	2018 Rs.	2017 Rs.
Less than 1 year	12,096,231	2,042,893
Between 1 - 2 years	8,641,174	4,800,854
Between 2 - 5 years	91,791,324	132,376,444
Over 5 years	173,311,013	133,277,199
	285,839,742	272,497,390

37 DEBENTURES ISSUED

37.1 Amortised Cost

	2018 Rs.	2017 Rs.
Unsecured, Subordinated, Redeemable Debentures	3,045,450,903	3,039,169,827
Unsecured, Senior, Redeemable Debentures	2,763,735,250	4,107,882,021
	5,809,186,153	7,147,051,848

All above debentures are denominated in Sri Lankan Rupees.

37.2 Capital

	Subordinated		Senior		Total
	Fixed Rs.	Floating Rs.	Fixed Rs.	Floating Rs.	Rs.
As at 1st January 2018	3,000,000,000	-	2,805,196,400	1,194,803,600	7,000,000,000
Redeemed during the Year	-	-	(949,522,300)	(359,622,400)	(1,309,144,700)
As at 31st December 2018	3,000,000,000	-	1,855,674,100	835,181,200	5,690,855,300

37.3 Unsecured, Subordinated, Redeemable Debentures

2014/2019 Issue

Debentures outstanding as at 31st December 2018, includes of 30,000,000 Unsecured, Subordinated, Redeemable Debentures of Rs. 100/- each issued by the Bank in 2014 , details of which is given below:

Debentures Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	31st December 2018 Rs.
Fixed Rate Debentures					
2014/2019 - 9.75% p.a	Listed	Annually	30.10.2014	29.10.2019	1,912,000,000
2014/2019 - 9.5233% p.a	Listed	Semi Annually	30.10.2014	29.10.2019	1,088,000,000
					3,000,000,000

37.4 Unsecured, Senior, Redeemable Debentures

2015/2019 Issue

Debentures outstanding as at 31st December 2018, includes of 26,908,553 Unsecured, Senior, Redeemable Debentures of Rs. 100/- each issued by the Bank in 2015 , details of which is given below:

Debentures Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	31st December 2018 Rs.
Fixed Rate Debentures					
2015/2019 - 10.00% p.a	Listed	Semi Annually	29.09.2015	28.09.2019	1,855,674,100
					1,855,674,100
Floating Rate Debentures					
2015/2019 -Average 6 Months Treasury Bill Rate (Net) + 3.0% p.a.	Listed	Semi Annually	29.09.2015	28.09.2019	835,181,200
					835,181,200
					2,690,855,300

The Bank has not had any defaults of principal, interest or other breaches with regard to debentures or any other financial liability during the year.

38 STATED CAPITAL

Ordinary Voting Shares

	2018		2017	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
As at 1st January	442,561,629	3,614,253,304	295,041,086	1,548,965,702
Shares Issued during the Year	-	-	147,520,543	2,065,287,602
As at 31st December	442,561,629	3,614,253,304	442,561,629	3,614,253,304

The Bank raised a sum of Rs. 2,065,287,602/- via issue of 147,520,543 shares (Right Issue) at Rs. 14/- per share on 3rd March 2017.

NOTES TO THE FINANCIAL STATEMENTS

39 REVALUATION RESERVES

	Rs.
As at 1st January 2017	264,496,888
Revaluation of Freehold Land and Building	372,498,886
Realisation of Revaluation Reserve	(6,362,480)
As at 1st January 2018	630,633,294
Revaluation of Freehold Land and Building	-
Realisation of Revaluation Reserve	(6,820,753)
As at 31st December 2018	623,812,541

40 STATUTORY RESERVE FUND

	Rs.
As at 1st January 2017	304,581,356
Transferred during the Year 2017	69,525,095
As at 1st January 2018	374,106,451
Transferred during the Year 2018	77,082,142
As at 31st December 2018	451,188,593

40.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required by Section 20 (1) & (2) of the Banking Act No. 30 of 1988. A sum equivalent to 5% of the Profit after tax (Profit for the Year) should be transferred to the Reserve until the reserve is equal to 50% of the paid up capital of the Bank and thereafter a sum equivalent to 2% of such profits until the amount of reserve is equal to the paid up capital of the Bank. This Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

41 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

Financial assets and financial liabilities are measured on an ongoing basis at either fair value or amortised cost. The summary of significant accounting policies in Note 2 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category as defined in SLFRS 9 - Financial Instruments and by Statement of Financial Position heading:

As at 31st December 2018	Financial Assets at Fair Value through Profit or Loss	Financial Assets at Fair Value through Other Comprehensive Income	Financial Assets and Liabilities at Amortised Cost	Derivative Financial Instruments at Fair Value	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	2,214,106,348	-	2,214,106,348
Balances with Central Bank of Sri Lanka	-	-	6,481,993,762	-	6,481,993,762
Placements with Banks	-	-	-	-	-
Derivative Financial Instruments	-	-	-	209,701	209,701
Financial Assets at FVPL	11,628,595	-	-	-	11,628,595
Loans and Advances	-	-	108,168,861,465	-	108,168,861,465
Debt and Other Instruments	-	-	34,074,557,579	-	34,074,557,579
Financial Assets at FVOCI	-	6,157,847	-	-	6,157,847
Total Financial Assets	11,628,595	6,157,847	150,939,519,154	209,701	150,957,515,297
Financial Liabilities					
Due to Banks	-	-	1,744,206,845	-	1,744,206,845
Derivative Financial Instruments	-	-		114,235	114,235
Due to Depositors	-	-	118,627,348,744	-	118,627,348,744
Due to Debt Securities Holders	-	-	13,295,604,446	-	13,295,604,446
Debenture Issued	-	-	5,809,186,153	-	5,809,186,153
Total Financial Liabilities	-	-	139,476,346,188	114,235	139,476,460,423

NOTES TO THE FINANCIAL STATEMENTS

The following table analyses the carrying amount of financial assets and liabilities by category are defined in SLFRS 9 - Financial Instruments and by Statement of Financial Position heading.

As at 31st December 2017	Financial Assets at Fair Value through Profit or Loss Rs.	Financial Assets Available for Sale Rs.	Financial Assets and Liabilities at Amortised Cost Rs.	Derivative Financial Instruments at Fair Value Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	1,665,040,665	-	1,665,040,665
Balances with Central Bank of Sri Lanka	-	-	6,884,017,912	-	6,884,017,912
Placements with Banks	-	-	237,368,087	-	237,368,087
Derivative Financial Instruments	-	-	-	16,091,393	16,091,393
Financial Assets - Held for Trading	4,549,189,029	-	-	-	4,549,189,029
Loans and Receivables to Banks	-	-	653,087,844	-	653,087,844
Loans and Receivables to Other Customers	-	-	109,139,936,050	-	109,139,936,050
Financial Investments - Available for Sale	-	6,157,847	-	-	6,157,847
Financial Investments - Held to Maturity	-	-	12,287,192,426	-	12,287,192,426
Total Financial Assets	4,549,189,029	6,157,847	130,866,642,984	16,091,393	135,438,081,253
Financial Liabilities					
Due to Banks	-	-	2,497,901,244	-	2,497,901,244
Derivative Financial Instruments	-	-		7,366,561	7,366,561
Due to Other Customers	-	-	107,193,029,640	-	107,193,029,640
Term Debt and Other Borrowed Funds	-	-	8,465,786,791	-	8,465,786,791
Debentures	-	-	7,147,051,848	-	7,147,051,848
Total Financial Liabilities	-	-	125,303,769,523	7,366,561	125,311,136,084

42 FAIR VALUE OF FINANCIAL INSTRUMENTS

42.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

(a) Derivatives

Derivative products valued with market-observable inputs are mainly currency swaps and forward foreign exchange contracts. Such valuations incorporate various inputs such as foreign exchange spot and forward rates.

(b) (i) Financial Assets at Fair Value through Other Comprehensive Income (from 01/01/2018)

Financial Assets at Fair Value through Other Comprehensive Income valued using valuation techniques or pricing models primarily consisted of unquoted equities.

(b) (ii) Financial Investments - Available for Sale (up to 31/12/2017)

Available for Sale Financial Assets valued using valuation techniques or pricing models .

(c) (i) Financial Assets at Fair Value through Profit or Loss (from 01/01/2018)

Quoted Equities and Sri Lanka Government Securities - Treasury Bills and Bonds included in Financial Assets at Fair Value through Profit or Loss are valued using market prices.

(c) (ii) Financial Assets Held for Trading (up to 31/12/2017)

Quoted Equities and Sri Lanka Government Securities - Treasury Bills and Bonds included in Financial Assets at Fair Value through Profit or Loss are valued using market prices.

42.2 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

a) The following table shows an analysis of financial instruments and non financial assets and liabilities recorded at fair value by level of fair value hierarchy.

As at 31st December 2018	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	209,701	-	209,701
Financial Assets at Fair Value through Profit or Loss				
- Equities	11,628,595	-	-	11,628,595
- Sri Lanka Government Securities - Treasury Bills and Bonds	-	-	-	-
Financial Assets at FVOCI	-	6,157,847	-	6,157,847
	11,628,595	6,367,548	-	17,996,143
Non Financial Assets				
Land - Revalued (Note 28.5)	-	-	1,014,910,000	1,014,910,000
Building - Revalued (Note 28.5)	-	-	429,017,945	429,017,945
	-	-	1,443,927,945	1,443,927,945
Financial Liabilities				
Derivative Financial Instruments		114,235	-	114,235
	-	114,235	-	114,235

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	16,091,393	-	16,091,393
Financial Assets - Held for Trading				
- Equities	12,107,420	-	-	12,107,420
- Sri Lanka Government Securities - Treasury Bills and Bonds	4,537,081,609	-	-	4,537,081,609
Financial investments - Available for Sale	-	6,157,847	-	6,157,847
	4,549,189,029	22,249,240	-	4,571,438,269
Non Financial Assets				
Land - Revalued (Note 28.5)	-	-	1,014,910,000	1,014,910,000
Building - Revalued (Note 28.5)	-	-	444,303,853	444,303,853
	-	-	1,459,213,853	1,459,213,853
Financial Liabilities				
Derivative Financial Instruments		7,366,561	-	7,366,561
	-	7,366,561	-	7,366,561

b) The following table shows the total gains and losses (excluding interest) recognised in profit or loss during the year relating to assets and liabilities held at the year end.

	Net Gains from Trading 2018 Rs.
Financial Assets	
Derivative Financial Instruments	95,465
Financial Assets at Fair Value through Profit or Loss	
- Equities	(478,824)
- Sri Lanka Government Securities - Treasury Bills and Bonds	(6,531,315)
	(6,914,674)

	Net Gains from Trading 2017 Rs.
Derivative Financial Instruments	8,724,832
Financial Assets - Held for Trading	
- Equities	(615,631)
- Sri Lanka Government Securities - Treasury Bills and Bonds	8,641,695
	16,750,895

c) Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

As at 31st December	2018		2017	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial Assets				
Cash and Cash Equivalents	2,214,106,348	2,214,106,348	1,665,040,665	1,665,040,665
Balances with Central Bank of Sri Lanka	6,481,993,762	6,481,993,762	6,884,017,912	6,884,017,912
Placements with Banks	-	-	237,368,087	237,368,087
Loans and Receivables to Banks	-	-	653,087,844	645,049,444
Loans and Advances -at Amortised Cost	108,168,861,465	108,379,124,570	-	-
Loans and Receivables to Other Customers	-	-	109,139,936,050	109,117,695,702
Debt & Other Instruments - at Amortised Cost	34,074,557,579	33,873,530,275	-	-
Financial Investments - Held to Maturity	-	-	12,287,192,426	12,355,870,076
Total Financial Assets	150,939,519,154	150,948,754,955	130,866,642,984	130,905,041,886
Financial Liabilities				
Due to Banks	1,744,206,845	1,744,206,845	2,497,901,244	2,497,901,244
Due to Depositors - at Amortised Cost	118,627,348,744	118,234,345,392	107,193,029,640	106,995,491,897
Due to Debt Securities Holders - at Amortised Cost	13,295,604,446	13,295,604,446	8,465,786,791	8,465,786,791
Debentures Issued	5,809,186,153	5,809,186,153	7,147,051,848	7,147,051,848
Total Financial Liabilities	139,476,346,188	139,083,342,836	125,303,769,523	125,106,231,780

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

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

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair value. This assumption is applied for Cash and Cash Equivalents, Balances with Central Bank of Sri Lanka, Placements with Banks and Securities Purchased under Re-sale Agreements. This assumption is also applied to demand deposits, savings accounts without a specific maturity, floating rate instruments and fixed rate instruments having maturities within 12 months.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities (other than assets and liabilities with maturities within 12 months) carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

42.3 Re-Classification of Financial Assets

The following tables shows the carrying amounts and fair values of financial assets reclassified from Held for Trading (FVPL) to the Loans and Receivables (Presently classified under Debt and Other instruments at Amortised cost). All transfers were made on 1st October 2014 at the fair value as at that date . There have been no further reclassifications since then.

Type of Assets Re-Classified	31st December 2018		31st December 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Debentures - Quoted	-	-	378,091,602	374,129,516

The following table shows the total fair value gains or losses and net interest income that would have been recognised during the year, if the Bank had not reclassified financial assets from FVPL to the Debt and other instruments (Amortised Cost) category. This disclosure is provided for information purposes only. It does not reflect what has actually been recorded in the Financial Statements of the Bank. These all debentures were matured during the year 2018.

	2018	2017
	Rs.	Rs.
Fair value gains and losses which would otherwise have been recorded after reclassification, during the current year	-	(2,268,261)
Interest Income which would otherwise have been recorded after reclassification, during the current year	4,587,159	13,709,718
Total Profit or Loss which would otherwise have been recorded during the year since reclassification	4,587,159	11,441,457
Total Profit or (Loss) which would otherwise have been recorded since reclassification	31,408,793	26,821,634

43 RISK MANAGEMENT

43.1 Introduction

Risk is inherent in Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls as per the risk appetite of the Bank. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his/ her responsibilities. The Bank's exposure to risk could be broadly categorised into credit risk, market risk, liquidity risk and operational risk. In addition, the impact of other risks such as strategic risk, reputational risk, compliance risk and legal risk are also monitored to avoid any additional impact on the Bank. The impact on risk could be segregated as external or internal according to the nature of the business. External risks may be due to changes in political, regulatory and other changes in the industry could impact the strategic processes of the Bank.

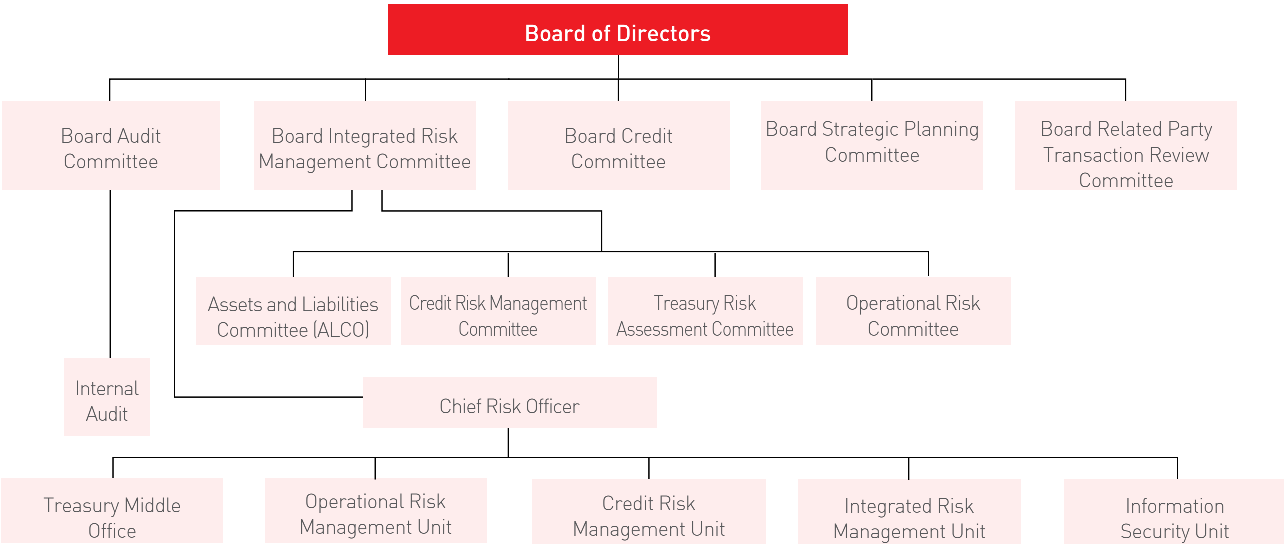
Risk Management Objectives, Policies and Processes

The foremost objective of the risk management is to assess the uncertainty of the future in order to make the best possible decision at present ensuring a return with the minimum impact on the financial position and profitability. The Bank's all risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Further, all risk management policies are updated regularly to reflect changes in market conditions, products and services offered by the Bank and requirements of the regulators.

Measurement of financial instruments is done with proper assessment of expectation in future cash flows. The most imperative methods of ascertaining the risk of such instruments is done by way of assessing the future settlement plan. Early identification of any issues had been the key factor to arrest and addresses the challenges of the environment and the expectation of the Bank. Having identified the categories of the measurements, the mitigating controls were introduced for better portfolio management. Separate management methods were introduced as per collateral, risk rating, and cash flow attached to each instruments. Stringent measures were introduced for items which needed close monitoring.

Risk Governance and Risk Management Strategies & Systems

The Bank's overall responsibility for risk management falls on the Board of Directors. Accordingly, the Bank has established a robust and pervasive risk culture and clear policies that defines the responsibilities of corporate and senior Management personnel, subject to the oversight of the Board. There are committees at both the Board and the Management levels to ensure that all risks are appropriately managed and risk limits are established based on the appetite of the Bank.



Board Audit Committee

The Board Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls and risk management systems, internal audit process, and the Bank's process for monitoring compliance with legal and regulatory requirements, appointment of external auditors, determination of their fees, ensuring their objectivity and independence and maintaining high standards of good Corporate Governance practices to conform to highest ethical standards. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both adhoc and regular reviews of risk management controls and procedures in accordance with the Audit Plan, the results of which are reported to the Audit Committee.

Board Credit Committee

The Board of Directors has delegated the responsibility for the oversight of credit management functions of the Bank to Board Credit Committee. The Board Credit Committee discharges its main responsibilities to operate a sound credit granting process, maintain an appropriate credit administration, maintain adequate controls over credit risk, identification and administration of problem advances, proper evaluation of new business opportunities, cyclical aspects of internal and external economy and review of facilities sanctioned by the Committee and issue of further instructions, if necessary.

NOTES TO THE FINANCIAL STATEMENTS

Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee mainly looks into the overall risk management aspects of the Bank. The Committee adopts risk strategies, frameworks, and policies and is also responsible for implementation of these strategies and plans. The Committee meets on quarterly basis and discusses the predetermined risk goals implemented as per the Bank wide risk management policy adopted by the Board and review the performances of the management committees. Risk dashboard, risk aggregation reports along with stress testing methodology are used to address the overall risk level of the Bank.

Board Related Party Transaction Review Committee

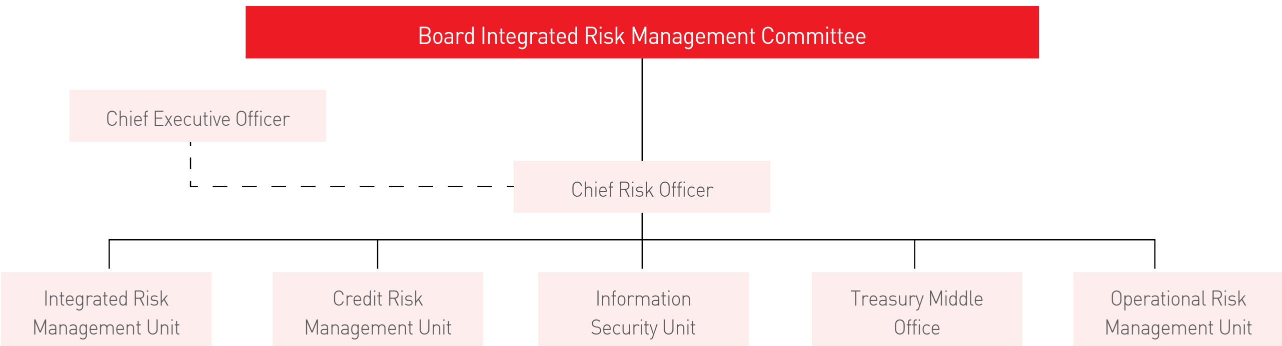
The Bank constituted Board Related party Transaction Review committee in order to assist the Board to review all related party transactions performed by the Bank. The committee monitors Bank's compliance with the Colombo Stock Exchange listing rules which ensure interest of the shareholders when entering into the related party transactions. The Committee independently reviews all related party transactions and provides / observations to the Board of Directors if deem necessary.

Board Strategic Planning Committee

The Board Strategic Planning Committee is formed to ensure that sufficient attention is devoted to the strategic planning process at the Board level. The Committee discharges it's main responsibilities by approving the periodic strategic plan and significant amendments to the existing strategic plan and recommending to the Board, ensuring that the annual budget is prepared to accomplish the goals and objectives of the strategic plan and recommending the same to the Board, reviewing the actual performance against the strategic plan as well as the annual budget, reviewing the appropriateness of current vision, mission and strategic positioning of the Bank, approving all strategic investment decisions such as mergers and acquisitions and recommending the same to the Board, reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets.

Risk Management Function

Risk Management function which is independent of the business units, performs the role of implementing risk management policies and procedures. Risk Management Unit headed by the Chief Risk Officer is responsible and accountable for controlling of risks, compliance of risk policies and procedures of the Bank. The structure of the risk management unit is as follows;



Each unit monitors the impact on separate risks as specified. These units function independent of business units and submits its observations to the Chief Risk Officer. Reports are generated daily, weekly, monthly and quarterly basis as per the requirements and breaches, if any, are notified for relevant action. Exceptions are also reported to the Board Integrated Risk Management Committee with relevant actions to be taken to address them.

Risk Measurement and Reporting Systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The Compliance function is also an independent function which performs the role of safeguarding the Bank against regulatory and reputational risks. It does this through appropriate polices and procedures for compliance with all applicable laws and regulations and embedding them into the internal control system. The policies set out the procedures for safeguarding the Bank from being sanctioned or fined for regulatory non-compliances. The Bank's Compliance Department also conducts training to familiarise staff with their compliance obligations.

The Bank's risks are recorded according to the breaches that have taken place, expected /predicted losses and unexpected cases which may arise in future. The estimated figures of cases are weekly monitored for prevention and mitigations. These events are mainly taken into account according to the internal risk management process established by the Bank. Monitoring of risks is done on predetermined limits as per policies. Management Information System reports are generated to the Corporate Management based on these risks indicators. Certain industries are specially highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted based on their daily, weekly and monthly monitoring to the Board/Management committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports will indicate aggregate credit exposure, credit metric forecasts, hold limit exceptions, as well as liquidity ratios. Further elaborations will be done on industry, concentration, customer and geographic risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored weekly for adherence. Delegated Authority limits have been imposed to each business units to control exposure to risks. Those outwit such limits are referred to Credit Risk Management Committee/Board Credit Committee for approval.

43.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the Credit Risk Department of the Bank's independent Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counter-party limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Management of Credit Risk

The primary objective of credit risk management is to enable the Bank to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved credit appetite. The Bank has a well defined credit policy approved by the Board of Directors which spells out the credit culture of the Bank, specifying target markets for lending and areas to avoid. The policy is implemented through the credit process, which is set out with clear guidelines and procedures. As a further step towards improving and maintaining uniformity of credit submissions, the Bank has established credit clusters (under area offices) with well trained and experienced staff to evaluate and carry out periodic review of credit facilities.

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The Bank's credit risk management process broadly encompasses the following;

a) Loan origination and risk appraisal comprises initial screening and credit appraisal focused on borrowers' ability to meet their commitments in a timely manner. The internal risk rating is an important part of the risk assessment of the customers and incorporated in the credit decision process. This numerical rating denotes the borrowers' strength relating to repayment ability, financial condition, industry/business outlook and management quality. A separate alphabetical rating is assigned to customers as the security indicator based on Bank's approved policy on security. The Bank minimises risk by granting credit facilities for high rated customers.

b) Loan approval and sanction of credit facilities - Clear guidelines and policies have been established for loan approvals/renewals within delegated credit approval authorities

c) Credit administration and disbursement is performed by Credit Administration Unit, which is an independent unit to ensure clear segregation of duties from business units and ensures origination and disbursement of credit are made only after stipulated conditions have been met and relevant security documents are obtained.

d) Post disbursement credit monitoring unit monitors all overdue credit facilities reported to 'underperforming category' to facilitate timely collections.

e) Credit Measurement and Monitoring - Credit Risk Management Unit measures and tracks the early warning signals pertaining to deterioration of financial health of the borrowers and customers who need special attention/monitoring is identified and their financial behaviours is discussed at the Credit Risk Management Committee and the Board Credit Committee levels.

f) Non performing advances are managed by the Legal and Recoveries Departments. These units are responsible for all aspects of the non performing credit, restructuring of the credit, monitoring the value of the applicable collateral & liquidation, scrutiny of legal documents liaising with the customer until all legal recovery matters are finalised, effective integration with Credit Risk and Credit Administration Unit for follow-up action.

The Bank's credit risk management process is articulated in credit policies, which are approved by the Board of Directors. Credit policies lay down the conditions and guidelines for the granting, maintenance, monitoring and management of credit, at both individual transaction and portfolio levels. These policies are documented, well defined, consistent with prudent practices & regulatory requirements and adequate for the nature and complexity of Bank's activities. Limits have been prescribed for the Bank's exposure to any single borrower, group of specific borrowers or specific industries/sectors in order to avoid concentration of credit risk.

A well structured loan review mechanism is in place and a comprehensive review is carried out at least annually for individually significant loans and identification of customers that require special attention are identified and more frequent updates are carried out for 'Watch List' exposures.

The Bank uses collateral for credit risk mitigation. The requirements for collateral is set forth in the credit policies and procedures of the Bank. The collaterals are evaluated independently by professional valuers approved by the Head Office Credit Committee and Board Credit Committee.

43.2.1 Credit-related commitments risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and financial guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

43.2.2 Impairment Assessment (applicable from 01/01/2018)

For accounting purposes, the Bank uses an Expected Credit Loss (ECL) model for the recognition of losses on impaired financial assets. This means that losses are recognised when objective evidence which provide significant increase in credit risk are the end of reporting period. Triggering events include the following:

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

- The Bank's definition and assessment of default and cure (Note 43.2.2.1).
- An explanation of the Bank's PD estimating process (Note 43.2.2.2)
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default (Notes 43.2.2.2, 43.2.2.3 and 43.2.3.4 respectively)
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 43.2.2.5)
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note: 43.2.2.2.6)
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note: 2.8.6.2)

43.2.2.1 Definition of Default and Cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In addition to above, the Bank considers all 'Non Performing Credit Facilities' and 'Rescheduled Credit Facilities' as defined in the Banking Act Direction No.03 of 2008 on 'Classification of Loans and Advances, Income Recognition and Provisioning' as 'Stage 3' Credit Facilities. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

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

- Internal rating of the borrower indicating default or near-default.
- The borrower requesting emergency funding from the Bank.
- The borrower having past due liabilities to public creditors or employees.
- The borrower is deceased.
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral.
- A material decrease in the borrower's turnover or the loss of a major customer.
- A covenant breach not waived by the Bank.
- The debtor filing for bankruptcy application/protection.
- Debtor's listed debt or equity suspended/delisted at the primary Stock Exchange.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore, re-classified out of 'Stage 3' when none of the default criteria have been present as at the reporting date. The decision whether to classify an asset as 'Stage 2' or 'Stage 1' once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant

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increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than requirement for forbearance which is explained in Note 2.8.10.

43.2.2.2 Probability of Default (PD)

The Bank estimate the Probability of Defaults (PD's) based on the basis of historical information. The Bank's PD's are calculated on the basis of on 'Days Past Due' (DPD) using 'Risk Migration Matrix Method'.

Details of the Bank's PD's are given below

As at 31st December 2018	Stage 1 %	Stage 2 %	Stage 3 %
Loans and Advances			
Term Loans	0.35 - 17.58	9.14 - 79.81	100.00
Overdrafts	2.87 - 7.31	7.32 - 17.16	100.00
Trade Finance	1.16 - 3.24	12.37 - 19.46	100.00
Lease Rentals Receivable	2.70 - 3.49	4.29 - 19.07	100.00
Others	0.08 - 9.70	0.22 - 46.67	100.00
Other Financial Assets			
Government of Sri Lanka Securities	4.00	-	-
Other Financial Assets	0.0001 - 6.00	-	-

As at 1st January 2018	Stage 1 %	Stage 2 %	Stage 3 %
Loans and Advances			
Term Loans	0.37 - 16.13	8.62 - 83.98	100.00
Overdrafts	1.86 - 8.00	6.82 - 18.96	100.00
Trade Finance	1.43 - 3.21	20.54 - 23.71	100.00
Lease Rentals Receivable	3.28 - 4.28	5.28 - 22.80	100.00
Others	0.10 - 6.19	6.33 - 46.67	100.00
Other Financial Assets			
Government of Sri Lanka Securities	2.40	-	-
Other Financial Assets	0.0001 - 6.00	-	-

PD's are then adjusted for SLFRS 9 ECL calculations to incorporate forward looking information and SLFRS 9 stage classification of the exposure. This is repeated for each economic scenario as appropriate.

43.2.2.3 Exposure at Default (EAD)

The exposure at default represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 2.8.6.5.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

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

43.2.2.4 Loss Given Default (LGD)

The Loss Given Default is an estimate of the loss arising in the case where default occurs at a given time.

The Bank segments its lending portfolio into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics as well as borrower characteristics.

43.2.2.5 Significant Increase in Credit Risk (SICR)

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk in accordance with the qualitative criteria assessment on significant increase in credit risk for an asset. In certain cases, the Bank may also consider that events explained in Note 43.2.2.5 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Qualitative criteria used for SICR assessment is given below;

- Modification of terms (restructuring) resulting in concessions including extensions, deferment of payments etc. due to deficiency of the borrower.
- The customer is deceased or insolvent
- When the bank is unable to find or contact the customer
- A reasonable and supportable forecasts of future economic conditions that adversely affects the performance of the customer
- A significant change in geographical locations or a customer or a natural catastrophes that adversely impacts the customer performance
- A significant fall in the value of the underlying collaterals
- An illegal disposal of mortgaged assets
- A major fine or a penalty imposed on the customer
- Significant changes in an actual or expected reductions in borrowers economic incentives to make scheduled contractual payments
- Undue delay in submission of audited financial statements
- Modified external audit opinion on financial statements
- Continuous significant cash flow problems
- A significant increase in financial gearing

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- More than 50% decline in borrowers turnover or profit before tax over previous year
- Erosion of borrowers net-worth by 25% over the previous year.
- A significant non compliance with regulatory requirements
- A change in laws and regulations that significantly affects customer's performance
- A material litigation against the customer that may significantly affects the customer performance or any other factor that affects the going concern on the company.
- At least 1 year delay in commencement of commercial operations/a major projects of the customer
- A downgrade of the Bank's internal borrower risk rating during past 12 months
- A downgrade of external credit rating during past 12 months
- Availability of any other factor that suggest the borrower will not be able to service the loan as agreed or any other factor that signifies that credit risk of the borrower has been increased significantly.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 43.2.2.6), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

43.2.2.6 Grouping Financial Assets Measured on Collective Basis

As explained in Note 2.8.6.1, the Bank calculates ECL's either on collective or individual basis.

Allowances are assessed collectively for losses on Loans and Advances that are not individually significant and for individually significant Loans and Advances that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience. However, when there are significant market developments, the Bank would include macro-economic factors within its assessments. These factors include GDP growth rate, unemployment rates, inflation rate, exchange rates, changes in laws & regulations and other data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio.

The Bank groups exposures into smaller homogeneous portfolios, based on the internal and external charateristics of the loans and advances, as described below;

- Product Type
- Borrowers' Business Segment Type
- Borrowers' Industry Type
- Collateral Type
- Exposure Value

43.2.3 Analysis of ECL Model under Multiple Economic Scenarios

The following table outlines the impact of multiple economic scenarios on the allowance for impairment on Financial Assets;

As at 31st December 2018	Loans & Advances - At Amortised Cost Rs.
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	2,959,362,092
Scenario B	
Base case - 25%, Upside - 25%, Downside - 50%	2,974,384,749
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	15,022,657
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	2,959,362,092
Scenario C	
Base case - 40%, Upside - 40%, Downside - 20%	2,924,530,080
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(34,832,012)

As at 1st January 2018	Loans & Advances - At Amortised Cost Rs.
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	2,433,765,005
Scenario B	
Base case - 25%, Upside - 25%, Downside - 50%	2,448,240,620
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	14,475,615
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	2,433,765,005
Scenario C	
Base case - 40%, Upside - 40%, Downside - 20%	2,401,625,845
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(32,139,160)

The application of multiple economic scenarios does not have any material impact on impairment allowances on other classes of financial assets, financial guarantees or documentary credit.

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43.2.4 Analysis of Maximum Exposure to Credit risk and Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The Bank obtains cash, gold, securities, property, guarantees, other movable and immovable property as collateral against lending. An approved list of acceptable securities and the applicable percentage of cash securities are defined as per the Credit Policy. These Collateral are evaluated independently by professional valuers. The management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose off repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

43.2.5 Forborne Loans

From a risk management point of view, once as asset is forborne, the Bank's Recoveries Department continues to monitor exposure until it is completely derecognised.

The Bank treats all forborne loans as 'stage 3' assets.

The table below shows the details of the forborne loans with the related modification loss suffered by the Bank during the year.

	2018 Rs.
Amortised Cost of Forborne Financial Assets (Modified during the Year)	442,005,268
Net Modification Loss	1,426,175

43.2.6 Maximum Exposure to Credit risk

31st December 2018	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Financial Assets		
Cash and Cash Equivalents	2,214,106,348	2,214,106,348
Balances with Central Bank of Sri Lanka	6,481,993,762	6,481,993,762
Placements with Banks	-	-
Derivative Financial Instruments	209,701	209,701
Loans and Advances -at Amortised Cost	113,494,424,234	19,077,605,987
Debt and Other Instruments - at Amortised Cost	34,158,389,212	33,310,118,368
Financial Assets- at Fair Value through Other Comprehensive Income	6,157,847	6,157,847
	156,355,281,104	61,090,192,013
Documentary Credit	868,487,803	868,487,803
Financial Guarantees	2,973,676,651	2,973,676,651
Undrawn Credit Commitments	16,829,617,055	16,829,617,055
	20,671,781,509	20,671,781,509
	177,027,062,613	81,761,973,522

31st December 2017	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Financial Assets		
Cash and Cash Equivalents	1,665,040,665	1,665,040,665
Balances with Central Bank of Sri Lanka	6,884,017,912	6,884,017,912
Placements with Banks	237,368,087	237,368,087
Derivative Financial Instruments	16,091,393	16,091,393
Financial Assets - Held for Trading	4,549,189,029	4,549,189,029
Loans and Receivables to Banks	653,087,844	653,087,844
Loans and Receivables to Other Customers - Gross	111,351,500,047	27,795,084,487
Financial Investments - Available for Sale	6,157,847	6,157,847
Financial Investments - Held to Maturity	12,287,192,426	12,287,192,426
	137,649,645,250	54,093,229,690
Documentary Credit	2,194,961,867	2,194,961,867
Financial Guarantees	3,895,519,348	3,895,519,348
Undrawn Credit Commitments	12,600,539,620	12,600,539,620
	18,691,020,835	18,691,020,835
	156,340,666,085	72,784,250,525

The presentation and classification of the previous year have been amended for better presentation and to be comparable with those of the current year.

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43.2.7 Credit Quality by Class of Financial Assets

The Bank manages the credit quality of financial assets using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

31st December 2018	Neither Past Due Nor Impaired	Past Due But Not Impaired							Individually Impaired	Total
		1-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	361-540 Days	Over 540 Days		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	2,214,467,464	-			-	-	-	-	-	2,214,467,464
Balances with Central Bank of Sri Lanka	6,481,993,762	-			-	-	-	-	-	6,481,993,762
Placements with Banks	-	-			-	-	-	-	-	-
Derivative Financial Instruments	209,701	-			-	-	-	-	-	209,701
Financial Assets at Fair Value through Profit or Loss	11,628,595	-			-	-	-	-	-	11,628,595
Loans and Advances - at Amortised Cost	69,166,079,097	21,346,628,932	12,276,753,910	3,924,681,219	797,507,971	750,638,107	389,777,401	1,394,740,639	3,447,616,958	113,494,424,234
Debt and Other Instruments - at Amortised Cost	34,158,389,212	-			-	-	-	-	-	34,158,389,212
Financial Assets at FVOCI	6,157,847	-			-	-	-	-	-	6,157,847
Total	112,038,925,678	21,346,628,932	12,276,753,910	3,924,681,219	797,507,971	750,638,107	389,777,401	1,394,740,639	3,447,616,958	156,367,270,815

31st December 2017	Neither Past Due Nor Impaired	Past Due But Not Impaired							Individually Impaired	Total
		1-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	361-540 Days	Over 540 Days		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,665,040,665	-			-	-	-	-	-	1,665,040,665
Balances with Central Bank of Sri Lanka	6,884,017,912	-			-	-	-	-	-	6,884,017,912
Placements with Banks	237,368,087	-			-	-	-	-	-	237,368,087
Derivative Financial Instruments	16,091,393	-			-	-	-	-	-	16,091,393
Financial Assets - Held for Trading	4,549,189,029	-			-	-	-	-	-	4,549,189,029
Loans and Receivables to Banks	653,087,844	-			-	-	-	-	-	653,087,844
Loans and Receivables to Other Customers	78,343,875,714	9,238,858,548	12,823,447,444	6,255,456,527	892,250,793	614,438,437	610,214,741	493,269,886	2,079,687,957	111,351,500,047
Financial Investments - Available for Sale	6,157,847	-	-		-	-	-	-	-	6,157,847
Financial Investments - Held to Maturity	12,287,192,426	-			-	-	-	-	-	12,287,192,426
Total	104,642,020,917	9,238,858,548	12,823,447,444	6,255,456,527	892,250,793	614,438,437	610,214,741	493,269,886	2,079,687,957	137,649,645,250

SLFRS 7 : Financial Instruments : Disclosures specifically require the disclosure of quality of loans that are neither impaired nor past due and an analysis of the age of financial assets that are past due but not impaired as at the reporting date. The Bank consider any amount uncollected for one day or more beyond their contractual due date as 'past due'.

The presentation and classification of the previous year have been amended for better presentation and to be comparable with those of the current year.

Individually Impaired Loans and Advances/ Financial Assets

All individually significant Loans and Advances/Financial Assets which the Bank determines that there is objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as 'Impaired Loans and Advances/Financial Assets'.

Past Due But Not Impaired Loans and Advances/Financial Assets

Past Due But Not Impaired Loans and Advances/Financial Assets are those with contractual interest or principal payments are 'past due', but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed, level of security/collateral available and significance of the financial asset.

43.2.8 Credit Risk Exposure for Each Internal Borrower Risk Rating

The Bank's policy is to maintain accurate and consistent borrower risk ratings across the lending portfolio. This facilitates focused management of the applicable risks and comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of quantitative and qualitative factors to provide the main inputs for the measurement of counterparty risks.

Internal Risk Rating Grade	Description	2018 Rs.	2017 Rs.
Risk Rating Grade 1	High Safety	45,213,043,114	42,106,427,110
Risk Rating Grade 2	Moderate Safety	55,964,359,823	47,203,250,845
Risk Rating Grade 3	Needs Monitoring	6,202,064,421	7,355,632,565
Risk Rating Grade 4	Substandard Risk	6,078,485,418	4,147,088,154
Risk Rating Grade 5	Very High Risk	36,471,458	142,981,001
		113,494,424,234	100,955,379,675

43.2.9 Analysis of Risk Concentration

43.2.9.1 Concentration by Counterparty

The Bank's concentrations of risks are managed by client/counterparty and by industry sector. The maximum credit exposure to any customer or a group counterparty as of 31st December 2018 was Rs. 2,260,521,000/- (2017: Rs. 2,275,000,000/-), before taking account of collateral.

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43.2.9.2 Industry Analysis

31st December 2018	Government	Agriculture, Forestry and Fishing	Manufacturing	Tourism	Transportation and Storage	Construction & Housing
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,394,232,445	-	-	-	-	-
Balances with Central Bank of Sri Lanka	6,481,993,762	-	-	-	-	-
Placements with Banks	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-
Financial Assets at FVPL	-	-	-	-	-	-
Loans and Advances -at Amortised Cost	-	12,285,165,041	13,105,002,332	3,352,116,185	696,809,184	30,827,375,424
Debt and Other Instrument - at Amortised Cost	31,690,681,610	-	-	-	-	506,178,082
Financial Assets at FVOCI	-	-	-	-	-	-
	39,566,907,817	12,285,165,041	13,105,002,332	3,352,116,185	696,809,184	31,333,553,506

The industry classification as at 31st December 2018 has been presented in accordance with the new format prescribed by CBSL hence, such may not be comparable with previous year classification.

31st December 2017	Government	Agriculture and Fishing	Manufacturing	Tourism	Transport
	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,404,367,099	-	-	-	-
Balances with Central Bank of Sri Lanka	6,884,017,912	-	-	-	-
Placements with Banks	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-
Financial Assets - Held for Trading	4,537,081,609	-	-	-	-
Loans and Receivables to Banks	-	-	-	-	-
Loans and Receivables to Other Customers	8,865,418,440	10,171,681,766	10,036,118,840	3,670,902,149	1,103,116,842
Financial Investments - Available for Sale	-	-	-	-	-
Financial Investments - Held to Maturity	12,287,192,426	-	-	-	-
	33,978,077,486	10,171,681,766	10,036,118,840	3,670,902,149	1,103,116,842

Wholesale and Retail Trade	Information Technology and Communication Services	Financial Services	Infrastructure Development	Professional, Scientific and Technical Activities	Arts, Entertainment and Recreation	Education	Health Care, Social Services and Support Services	Consumption	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	-	820,235,019	-	-	-	-	-	-	2,214,467,464
-	-	-	-	-	-	-	-	-	6,481,993,762
-	-	-	-	-	-	-	-	-	-
-	-	209,701	-	-	-	-	-	-	209,701
-	-	11,628,595	-	-	-	-	-	-	11,628,595
18,502,641,028	436,219,514	7,122,618,095	187,770,742	927,848,539	320,916,602	625,203,328	373,295,468	24,731,442,752	113,494,424,234
-	-	1,961,529,520	-	-	-	-	-	-	34,158,389,212
-	-	6,157,847	-	-	-	-	-	-	6,157,847
18,502,641,028	436,219,514	9,922,378,777	187,770,742	927,848,539	320,916,602	625,203,328	373,295,468	24,731,442,752	156,367,270,815

Construction & Housing	Traders	New Economy	Financial and Business Services	Infrastructure	Other Services	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	-	-	260,673,566	-	-	1,665,040,665
-	-	-	-	-	-	6,884,017,912
-	-	-	237,368,087	-	-	237,368,087
-	-	-	16,091,393	-	-	16,091,393
-	-	-	12,107,420	-	-	4,549,189,029
-	-	-	653,087,844	-	-	653,087,844
26,877,108,955	16,126,775,082	765,579,949	11,377,110,746	237,513,018	22,120,174,260	111,351,500,047
-	-	-	6,157,847	-	-	6,157,847
-	-	-	-	-	-	12,287,192,426
26,877,108,955	16,126,775,082	765,579,949	12,562,596,903	237,513,018	22,120,174,260	137,649,645,250

NOTES TO THE FINANCIAL STATEMENTS

43.3 Liquidity Risk

Liquidity Risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Hence, the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis.

43.3.1 Management of Liquidity Risk

The Bank manages liquidity risk in accordance with regulatory guidelines and accepted best practices. The objective of the Bank's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and that market access remains cost effective. The Bank's liquidity risk management framework is designed to identify measure and manage the liquidity position in a timely manner. The Assets and Liabilities Committee (ALCO) is responsible for managing this risk through continuous monitoring of the set benchmarks and controlling risks by adopting appropriate strategies through advances, deposits and investment products. Contractual maturities of assets and liabilities, sensitivity of assets and liabilities, key liquidity ratios and monthly liquidity gaps are reviewed at ALCO meetings as measures to liquidity .The Bank maintains a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flows.

The Bank's Liquidity Contingency Plan is a detailed action plan document approved by the Board of Directors of the Bank indicating possible warning indicators, monitoring mechanism and the process for escalation. The plan details the specific action steps and identifies key individuals responsible for the specific action tasks. To limit liquidity risk, the Bank has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. Intraday liquidity management is about managing the daily payments and cash flows. The Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment systems.

The contractual maturities of assets and liabilities of the Bank as at the reporting date are detailed in Note 46.

The policy of the Bank is to maintain adequate liquidity at all times, at all locations and for all currencies and hence to be in a position in the normal course of business, to meet obligations, repay depositors and fulfill commitments. As a part of liquidity management, the Bank maintains borrowing relationships to ensure the continued access to diverse market of funding sources. The Bank's sound credit rating together with excellent market reputation has enabled the Bank to secure ample call lines with local and foreign Banks.

In addition, the Bank maintains a Statutory Deposit with the Central Bank of Sri Lanka equal to 6% (2017-7.5%) of Rupee deposit liabilities of the Domestic Banking Unit. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of Statutory Liquid Asset Ratio to customer liabilities, to reflect market conditions. The significant liquidity ratios during the year were as follows:

Advances to Deposit Ratio (ADR)

	2018	2017
Average	97.54%	95.64%
Year-end	98.08%	95.42%

The Bank stresses the importance of maintaining an adequate deposit base as the key source of financing loans to customers. This is monitored using the Advances to Deposit Ratio (ADR), which compares Loans and Advances (capital) as a percentage of customers deposits (capital). Cheques and drafts purchased which are deemed to be liquid, are excluded from the advances to deposit ratio.

Statutory Liquid Asset Ratio (SLAR)

	2018	2017
Average		
Domestic Banking Unit	25.10%	26.16%
Foreign Currency Banking Unit	23.26%	28.75%
Year-End		
Domestic Banking Unit (Minimum Requirement - 20%)	29.17%	23.25%
Foreign Currency Banking Unit (Minimum Requirement - 20%)	20.09%	27.04%

The Bank maintains a healthy Statutory Liquid Asset Ratio (SLAR) separately at Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) levels. The Bank considers Cash balances, Balances with Licensed Commercial Banks, Money at Call in Sri Lanka, Balances with Banks Abroad, Treasury Bills/Bonds and Securities issued or guaranteed by the Government of Sri Lanka, Sri Lanka Development Bonds, Standing Deposit Facility Investments, Gilt Edged Securities, Import Bills, Export Bills and Items in the Process of Collection as "Liquid Assets" for the purpose of Statutory Liquid Asset Ratio Calculation.

43.3.2 Statutory Liquidity Coverage Ratio

In addition to Statutory Liquid Asset Ratio (SLAR) requirement, the Bank ensures compliance with Liquidity Coverage Ratio (LCR) requirement in accordance with Direction No.01 of 2015 on 'Liquidity Coverage Ratio (LCR) under BASEL III Liquidity Standards for Licensed Commercial Banks and Licensed Specialised Banks'.

The Bank maintained sufficient High Quality Liquid Assets to meet minimum statutory requirement (90%) for both Sri Lankan Rupees as well as all currencies throughout the year.

High Quality Liquidity Assets are categorised into two categories.

(a) Level 1 Assets: Include cash in hand, qualifying reserves with Central Bank of Sri Lanka and qualifying marketable securities that attract 0% risk weight under Basel III Capital Adequacy Framework.

(b) Level 2 Assets: Include Level 2A assets and Level 2B assets.

Level 2A Assets: Include qualifying marketable securities and qualifying non-financial corporate debt securities that attract a 20% risk weight under Basel III Capital Adequacy Framework and qualifying investments in gilt unit trusts, subject to a 15% haircut.

Level 2B Assets: Include qualifying non-financial corporate debt securities with an external Credit Rating between A+ to BBB- and non-financial common equity shares, subject to a 50% haircut.

NOTES TO THE FINANCIAL STATEMENTS

Statutory Liquidity Coverage Ratio (LCR)

	2018	2017
Average		
Rupee LCR	159.63%	161.24%
All Currency LCR	140.38%	209.61%
Year End		
Rupee LCR (Minimum Requirement - 90%)	166.08%	208.84%
All Currency LCR (Minimum Requirement - 90%)	136.52%	195.36%

Minimum regulatory LCR requirement will be increased upto 100% by 1st January 2019.

43.3.3 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at the end of the reporting period. However, the Bank expects that many customers will not request repayment on the earliest date. The Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

31st December 2018	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	More than 5 Years Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	2,214,106,348	-	-	-	2,214,106,348
Balances with Central Bank of Sri Lanka	6,481,993,762	-	-	-	6,481,993,762
Placements with Banks	-	-	-	-	-
Derivative Financial Instruments	209,701	-	-	-	209,701
Financial Assets at FVPL	11,628,595	-	-	-	11,628,595
Loans and Advances - at Amortised Cost	45,425,131,939	20,822,451,174	56,605,867,348	19,197,583,880	142,051,034,341
Debt and Other Instruments - at Amortised Cost	3,617,102,027	16,618,859,905	16,185,430,998	1,815,871,947	38,237,264,877
Financial Assets at FVOCI	-	-	-	6,157,847	6,157,847
Total Undiscounted Financial Assets	57,750,172,372	37,441,311,079	72,791,298,346	21,019,613,674	189,002,395,471
Financial Liabilities					
Due to Banks	1,564,615,354	49,435,033	132,488,715	-	1,746,539,102
Derivative Financial Instruments	114,235	-	-	-	114,235
Due to Depositors - at Amortised Cost	64,927,528,670	40,815,550,139	18,801,413,068	3,662,573,124	128,207,065,001
Due to Debt Securities Holders - At Amortised Cost	3,169,104,247	2,469,766,954	10,956,836,101	1,521,222,230	18,116,929,532
Debentures Issued	145,304,891	6,125,132,403	-	-	6,270,437,294
Other Liabilities	8,400,315	-	-	-	8,400,315
Total Undiscounted Financial Liabilities	69,815,067,712	49,459,884,529	29,890,737,884	5,183,795,354	154,349,485,479
Net Undiscounted Financial Assets/(Liabilities)	(12,064,895,340)	(12,018,573,450)	42,900,560,462	15,835,818,320	34,652,909,992

31st December 2017	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	1,665,040,665	-	-	-	1,665,040,665
Balances with Central Bank of Sri Lanka	6,884,017,912	-	-	-	6,884,017,912
Placements with Banks	237,368,087	-	-	-	237,368,087
Derivative Financial Instruments	16,091,393	-	-	-	16,091,393
Financial Assets - Held for Trading	4,549,189,029	-	-	-	4,549,189,029
Loans and Receivables to Banks	25,483,333	80,404,511	547,200,000	-	653,087,844
Loans and Receivables to Other Customers	42,148,750,841	14,473,232,582	42,193,824,244	10,324,128,383	109,139,936,050
Financial Investments - Available for Sale	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	2,844,785,451	5,022,809,223	3,038,340,289	1,381,257,463	12,287,192,426
Total Undiscounted Financial Assets	58,370,726,711	19,576,446,316	45,779,364,533	11,711,543,693	135,438,081,253
Financial Liabilities					
Due to Banks	2,386,482,641	34,200,953	77,217,650	-	2,497,901,244
Derivative Financial Instruments	7,366,561	-	-	-	7,366,561
Due to Other Customers	59,780,760,856	34,669,432,111	10,622,596,516	2,120,240,157	107,193,029,640
Term Debt and Other Borrowed Funds	1,286,874,657	465,746,292	5,641,517,272	1,071,648,570	8,465,786,791
Debentures	107,882,021	1,359,205,278	5,679,964,549	-	7,147,051,848
Total Undiscounted Financial Liabilities	63,569,366,736	36,528,584,634	22,021,295,987	3,191,888,727	125,311,136,084
Net Undiscounted Financial Assets/(Liabilities)	(5,198,640,025)	(16,952,138,318)	23,758,068,546	8,519,654,966	10,126,945,169

43.3.4 Contractual Maturities of Commitments and Contingencies

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2018	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingencies					
Guarantees	1,063,866,807	1,568,460,502	341,349,342	-	2,973,676,651
Documentary Credit	798,565,428	69,922,375	-	-	868,487,803
Forward Foreign Exchange Contracts	775,562,653	-	-	-	775,562,653
Currency Swaps	20,887,851,927	1,834,745,000	-	-	22,722,596,927
	23,525,846,815	3,473,127,877	341,349,342	-	27,340,324,034
Commitments					
Undrawn Credit Lines	16,829,617,055	-	-	-	16,829,617,055
	16,829,617,055	-	-	-	16,829,617,055
Total (Note 47)	40,355,463,870	3,473,127,877	341,349,342	-	44,169,941,089

As at 31st December 2017	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingencies					
Guarantees	2,129,115,608	1,514,751,837	251,651,903	-	3,895,519,348
Documentary Credit	2,066,343,518	128,618,349	-	-	2,194,961,867
Forward Foreign Exchange Contracts	1,085,964,711	-	-	-	1,085,964,711
Currency Swaps	12,649,403,847	-	-	-	12,649,403,847
	17,930,827,684	1,643,370,186	251,651,903	-	19,825,849,773
Commitments					
Undrawn Credit Lines	12,600,539,620	-	-	-	12,600,539,620
	12,600,539,620	-	-	-	12,600,539,620
Total (Note 47)	30,531,367,304	1,643,370,186	251,651,903	-	32,426,389,393

43.4 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Bank's income or the value of its holdings of financial instruments. The Bank has placed a special emphasis on the effect of market risk on fixed income securities, investments and forex positions.

Management of Market Risk

The primary objective of market risk management is to ensure that the Bank optimises that the risk reward relationship and does not expose to unacceptable losses outside its risk appetite.

The Board Integrated Risk Management Committee reviews the risk goals set for market risk management on a quarterly basis and provides valuable input and direction. These goals are compared with results achieved and are subject to a comprehensive discussion for decision making for way forward. In particular, the limits imposed by the regulator and control measures adopted for compliance are carefully monitored.

The Assets and Liabilities Committee (ALCO), in keeping with its Terms of Reference (TOR) approved by the Board, decides on short term and long term strategies of the Bank for the overall management of Assets and Liabilities based on specific needs and prevailing market situation. ALCO reviews interest rate risk, liquidity risk, Bank interest rates with competitor rates etc.

The Board approved comprehensive policy documents on Market and Liquidity Risk management, Investments, and Stress Testing in place at Bank to mitigate the market risks. In addition, a policy document defining the responsibilities of each treasury units i.e. front, back and middle office is in place. The Strategies and policies are being continuously updated according to the evolving business requirements of the Bank as well as regulatory requirements. Treasury Middle Office functions as an independent unit reporting to Chief Risk Officer.

Treasury Middle Office of the Bank monitors the comprehensive framework of Treasury operating limits approved by the Board, including open position limits, dealer limits, counter party limits, gap limits, Foreign Currency Banking Unit and Domestic operation limits on a daily basis and takes prompt action when necessary. Separate risk goals are set for market risk management and on a quarterly basis and Board Integrated Risk Management Committee reviews these risk goals and provides valuable input and direction.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest Rate Risk results from the differences in the way interest rate changes affect the values of assets, liabilities, and off balance sheet instruments.

The interest rate sensitivity of Banks portfolio depends on the characteristics of the financial instruments that make up the portfolio. The interest rate sensitivity of a financial instrument depends on maturity and reprising characteristics of the financial instruments.

The Bank presently prepares the Sensitivity of Assets and Liabilities according to CBSL guideline for Interest Rate Sensitive Assets and Liabilities in prescribed time bands which is presented to Bank's Assets and Liabilities Committee on a monthly basis. Gaps are identified between assets and liabilities and the same is used to prepare the Interest Rate Risk Report.

	2018 Rs.	2017 Rs.
Increase in interest rates (%)	2%	2%
Effect on Profit or Loss and Equity (Rs.)	133,509,409	260,781,766
Decrease in interest rates (%)	(2%)	(2%)
Effect on Profit or Loss and Equity (Rs.)	(135,308,210)	(271,880,993)

NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Sensitivity Analysis

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities. The Bank's Financial Assets and Liabilities are included at carrying amount and categorised by earlier of contractual re-pricing or maturity dates.

As at 31st December 2018	Interest Bearing				Non Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	2,214,106,348	2,214,106,348
Balances with Central Bank of Sri Lanka	-	-	-	-	6,481,993,762	6,481,993,762
Placements with Banks	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	209,701	209,701
Financial Assets at FVPL	-	-	-	-	11,628,595	11,628,595
Loans and Advances -at Amortised Cost	85,068,452,963	13,961,637,513	8,353,810,575	784,960,414	-	108,168,861,465
Debt and Other Instruments - at Amortised Cost	3,533,293,776	15,385,971,647	13,737,732,707	1,417,559,449	-	34,074,557,579
Financial Assets at FVOCI	-	-	-	-	6,157,847	6,157,847
Total Financial Assets	88,601,746,739	29,347,609,160	22,091,543,282	2,202,519,863	8,714,096,253	150,957,515,297
Financial Liabilities						
Due to Banks	980,579,768	48,393,239	131,202,650	-	584,031,188	1,744,206,845
Derivative Financial Instruments	-	-	-	-	114,235	114,235
Due to Depositors - at Amortised Cost	59,250,025,417	40,678,961,980	10,588,073,038	2,722,426,252	5,387,862,057	118,627,348,744
Due to Debt Securities holders - At Amortised Cost	6,312,516,115	4,920,994,106	2,062,094,225	-	-	13,295,604,446
Debentures Issued	908,061,150	4,901,125,003	-	-	-	5,809,186,153
Total Financial Liabilities	67,451,182,450	50,549,474,328	12,781,369,913	2,722,426,252	5,972,007,480	139,476,460,423
Total Interest Rate Sensitivity Gap	21,150,564,289	(21,201,865,168)	9,310,173,369	(519,906,389)	2,742,088,773	11,481,054,874

As at 31st December 2017	Interest Bearing				Non Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	1,665,040,665	1,665,040,665
Balances with Central Bank of Sri Lanka	-	-	-	-	6,884,017,912	6,884,017,912
Placements with Banks	237,368,087	-	-	-	-	237,368,087
Derivative Financial Instruments	-	-	-	-	16,091,393	16,091,393
Financial Assets - Held for Trading	4,537,081,609	-	-	-	12,107,420	4,549,189,029
Loans and Receivables to Banks	248,283,332	4,804,512	400,000,000	-	-	653,087,844
Loans and Receivables to Other Customers	80,784,067,492	18,390,093,635	9,295,472,180	670,302,743	-	109,139,936,050
Financial Investments - Available for Sale	-	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	2,844,785,451	5,022,809,223	3,038,340,289	1,381,257,463	-	12,287,192,426
Total Financial Assets	88,651,585,971	23,417,707,370	12,733,812,469	2,051,560,206	8,583,415,237	135,438,081,253
Financial Liabilities						
Due to Banks	2,242,163,829	34,200,953	77,217,650	-	144,318,812	2,497,901,244
Derivative Financial Instruments	-	-	-	-	7,366,561	7,366,561
Due to Other Customers	54,551,649,273	34,669,432,112	10,622,596,516	2,120,240,157	5,229,111,582	107,193,029,640
Term Debt and Other Borrowed Funds	2,710,868,551	4,563,918,240	1,191,000,000	-	-	8,465,786,791
Debentures Issued	1,302,685,621	999,582,878	4,844,783,349	-	-	7,147,051,848
Total Financial Liabilities	60,807,367,274	40,267,134,183	16,735,597,515	2,120,240,157	5,380,796,955	125,311,136,084
Total Interest Rate Sensitivity Gap	27,844,218,697	(16,849,426,813)	(4,001,785,046)	(68,679,951)	3,202,618,282	10,126,945,169

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. This represents exposures the Bank has due to changes in the values of current holdings and future cash flow positions denominated in currencies other than the home currency.

Management of Currency Risk

The Bank's foreign exchange exposure is affected by movements in exchange rates. A Sensitivity analysis is used to measure the potential impact on Bank's adverse movements in exchange rate by giving adverse shocks for Net Open Position (NOP) of the Bank including the on balance sheet and off balance sheet exposures and assess the results thereafter according to the policy. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

NOTES TO THE FINANCIAL STATEMENTS

Equity Price Risk

Equity price risk arises from the possibility that equity prices will fluctuate affecting the value of quoted equities.

Management of Equity Price Risk

The Bank does not hold any investment for strategic purposes other than the unquoted investments which are held for regulatory purposes. The value of quoted securities held in Bank's trading portfolio are directly linked to equity prices of Colombo Stock Exchange with increases/decreases being monitored and marked to market. A Sensitivity analysis is carried out by a stress testing exercise that assesses the impact of the fall in the stock market index which is according to Bank's policy. However, the Bank does not hold a significant investment in quoted or unquoted shares as at the reporting period date.

All investments held for trading are valued at market prices as at the reporting period date and resulting gains and losses are taken into books as unrealised gains. Un-quoted investments classified as 'Equities at FVOCI' are carried at the cost in the Statement of Financial Position.

43.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The Bank recognises the significance of operational risk, which is inherent in all areas of business. This includes legal risk but excludes strategic and reputation risk. Operational risks inherent in the Bank's activities are managed within acceptable levels through an appropriate level of management focus on resources.

Management of Operational Risk

The Bank has an operational risk management policy approved by Board of Directors which clearly demonstrates the objectives and procedures in managing operational risks. This policy manual outlines the internal operating policies of the Bank's Operational Risk Management framework. The Board Integrated Risk Management Committee oversees the implementation of the operational risk management framework.

44 NET ASSET VALUE PER ORDINARY SHARE

	2018 Rs.	2017 Rs.
Total Equity Holders Funds (Rs.)	11,246,643,256	10,669,887,229
Number of Ordinary Shares in Issue	442,561,629	442,561,629
Net Assets per Share (Rs.)	25.41	24.11

45 ADDITIONAL CASH FLOW INFORMATION

45.1 Cash and Cash Equivalents for Cash Flow Purpose

	2018 Rs.	2017 Rs.
Cash in Hand (Note 16)	1,394,232,445	1,404,367,099
Balances with Foreign Banks (Note 16)	819,873,903	260,673,566
Placements with Banks (Note 18)	-	237,368,087
	2,214,106,348	1,902,408,752

The Statutory Balances with the Central Bank of Sri Lanka is not available to finance the Bank's day-to-day operations and therefore, is not considered as a part of cash and cash equivalents.

45.2 Change in Operating Assets

	2018 Rs.	2017 Rs.
Net Change in Statutory Deposit with Central Bank of Sri Lanka	402,024,150	(665,453,787)
Net Change in Derivative Financial Instruments	15,881,692	10,188,235
Net Change in Financial Assets - Fair Value through Profit or Loss	4,537,560,434	(3,919,444,322)
Net Change in Loans and Receivables to Banks	-	101,043,564
Net Change in Loans and Advances -at Amortised Cost	(1,758,636,208)	(13,800,562,678)
Net Change in Debt and Other Instruments	(21,787,365,152)	-
Net Change in Other Assets	(28,655,157)	(143,871,247)
	(18,619,190,241)	(18,418,100,235)

45.3 Change in Operating Liabilities

	2018 Rs.	2017 Rs.
Net Change in Due to Banks	(753,694,399)	(11,740,490,405)
Net Change in Due to Debt Securities Holders - at Amortised Cost	2,431,032,003	600,617,072
Net Change in Derivative Financial Instruments	(7,252,326)	7,366,561
Net Change in Due to Depositors - at Amortised Cost	11,434,319,104	15,736,620,001
Net Change in Other Provisions and Accruals	(21,137,567)	59,136,313
Net Change in Other Liabilities	1,185,653,410	(93,320,207)
	14,268,920,225	4,569,929,335

45.4 Other Non-Cash Items Included in Profit Before Tax

	2018 Rs.	2017 Rs.
Depreciation of Property, Plant and Equipment	159,440,256	180,426,625
Amortisation of Intangible Assets	34,370,887	33,064,752
Loss/(Profit) on Disposal of Property, Plant and Equipment	(2,104,202)	1,169,518
Impairment Charge on Financial Assets	2,017,146,532	497,437,241
Impairment Reversal on Non Financial Assets	-	(3,051,291)
Defined Benefit Plan Expenses	66,708,219	59,590,098
	2,275,561,692	768,636,943

45.5 Operational Cash Flows From Interest and Dividends

	2018 Rs.	2017 Rs.
Interest Paid	9,765,228,910	10,059,148,727
Interest Received	18,341,824,155	15,364,501,012
Dividends Received	920,200	1,129,518

NOTES TO THE FINANCIAL STATEMENTS

45.6 Changes in Liabilities arising from Financing Activities

2018	Stated Capital Rs.	Term Debt Rs.	Debentures Rs.	Total Liabilities from Financing Activities Rs.
As at 1st January 2018	3,614,253,304	6,733,162,061	7,147,051,848	17,494,467,213
Cash Flows from Financing Activities				
- Receipts	-	2,870,094,225	-	2,870,094,225
- Repayments		(500,000,000)	(1,309,144,700)	(1,809,144,700)
- Interest Payments	-	(709,613,002)	(703,260,306)	(1,412,873,308)
Effect of Movement in Foreign Exchange Rate	-	1,067,562,500	-	1,067,562,500
Others *	-	742,762,694	674,539,311	1,417,302,005
As at 31st December 2018	3,614,253,304	10,203,968,478	5,809,186,153	19,627,407,935

2017	Stated Capital Rs.	Term Debt Rs.	Debentures Rs.	Total Liabilities from Financing Activities Rs.
As at 1st January 2017	1,548,965,702	5,528,588,987	7,950,170,874	15,027,725,563
Cash Flows from Financing Activities				
- Receipts	2,065,287,602	1,074,850,000	-	3,140,137,602
- Repayments			(750,000,000)	(750,000,000)
- Interest Payments	-	(379,850,308)	(792,693,804)	(1,172,544,112)
Effect of Movement in Foreign Exchange Rate	-	101,205,000	-	101,205,000
Others *	-	408,368,382	739,574,778	1,147,943,160
As at 31st December 2017	3,614,253,304	6,733,162,061	7,147,051,848	17,494,467,213

*The 'Others' row includes the effect of accrued but not yet paid interest on Term Debt and Debentures and change in transaction costs.

46 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31st December 2018	Within 12 Months Rs.	Over 12 Months Rs.	Total Rs.
Assets			
Cash and Cash Equivalents	2,214,106,348	-	2,214,106,348
Balances with Central Bank of Sri Lanka	6,481,993,762	-	6,481,993,762
Derivative Financial Instruments	209,701	-	209,701
Financial Assets at Fair Value through Profit or Loss	11,628,595	-	11,628,595
Loans and Advances -at Amortised Cost	56,286,222,703	51,882,638,762	108,168,861,465
Debt and Other Instruments - at Amortised Cost	18,919,265,424	15,155,292,155	34,074,557,579
Financial Assets at FVOCI		6,157,847	6,157,847
Property, Plant and Equipment	-	1,934,573,939	1,934,573,939
Intangible Assets	-	305,083,081	305,083,081
Deferred Tax Assets	4,931,302		4,931,302
Other Assets	421,141,583	403,037,621	824,179,204
Total Assets	84,339,499,418	69,686,783,405	154,026,282,823
Liabilities			
Due to Banks	1,613,004,195	131,202,650	1,744,206,845
Derivative Financial Instruments	114,235	-	114,235
Due to Depositors - at Amortised Cost	102,515,503,621	16,111,845,123	118,627,348,744
Due to Debt Securities Holders - At Amortised Cost	4,135,856,184	9,159,748,262	13,295,604,446
Debentures Issued	5,809,186,153	-	5,809,186,153
Current Tax Liabilities	785,735,048	-	785,735,048
Other Provisions and Accruals	208,398,012	-	208,398,012
Other Liabilities	2,035,302,663	273,743,421	2,309,046,084
Total Liabilities	117,103,100,111	25,676,539,456	142,779,639,567
Net	(32,763,600,693)	44,010,243,949	11,246,643,256

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2017	Within 12 Months Rs.	Over 12 Months Rs.	Total Rs.
Assets			
Cash and Cash Equivalents	1,665,040,665	-	1,665,040,665
Balances with Central Bank of Sri Lanka	6,884,017,912	-	6,884,017,912
Placements with Banks	237,368,087	-	237,368,087
Derivative Financial Instruments	16,091,393	-	16,091,393
Financial Assets - Held for Trading	4,549,189,029	-	4,549,189,029
Loans and Receivables to Banks	105,887,844	547,200,000	653,087,844
Loans and Receivables to Other Customers	56,621,983,423	52,517,952,627	109,139,936,050
Financial Investments - Available for Sale	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	7,867,594,674	4,419,597,752	12,287,192,426
Property, Plant and Equipment	-	1,989,970,519	1,989,970,519
Intangible Assets	-	284,390,317	284,390,317
Other Assets	441,992,851	347,250,124	789,242,975
Total Assets	78,389,165,878	60,112,519,186	138,501,685,064
Liabilities			
Due to Banks	2,420,683,594	77,217,650	2,497,901,244
Derivative Financial Instruments	7,366,561	-	7,366,561
Due to Other Customers	94,450,192,967	12,742,836,673	107,193,029,640
Term Debt and Other Borrowed Funds	1,752,620,949	6,713,165,843	8,465,786,791
Current Tax Liabilities	550,341,567	-	550,341,567
Deferred Tax Liabilities	-	630,734,284	630,734,284
Other Provisions and Accruals	229,535,579	-	229,535,579
Other Liabilities	839,595,824	270,454,497	1,110,050,321
Debentures	1,467,087,299	5,679,964,549	7,147,051,848
Total Liabilities	101,717,424,340	26,114,373,495	127,831,797,835
Net	(23,328,258,462)	33,998,145,691	10,669,887,229

47 COMMITMENTS AND CONTINGENCIES

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

Documentary Credit and Financial Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Financial Guarantees and Documentary Credit (Letters of Credit) carry a similar credit risk to loans. Details of Commitments and Contingencies are given below;

47.1 Contingencies

As at 31st December	2018 Rs.	2017 Rs.
Guarantees	2,973,676,651	3,895,519,348
Documentary Credit	868,487,803	2,194,961,867
Forward Foreign Exchange Contracts	775,562,653	1,085,964,711
Currency Swaps	22,722,596,927	12,649,403,847
	27,340,324,034	19,825,849,773

47.2 Commitments

As at 31st December	2018 Rs.	2017 Rs.
Undrawn Credit Commitments	16,829,617,055	12,600,539,620
	16,829,617,055	12,600,539,620
Total	44,169,941,089	32,426,389,393

Impairment allowances on undrawn credit commitments are included under impairment allowances for respective loan products in Note 21.5, whereas impairment provisions on financial guarantees and documentary credit is given under Note 35 - Other Liabilities.

There are no significant capital commitments as at the date of the Statement of Financial Position (2017-Nil).

47.3 Material Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

Pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a reasonable security to cover the damages are not considered here as the Bank does not expect cash outflows from such claims. However, further adjustments are made to the Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the probability of the outcome and also based on a reasonable estimation. The Bank's legal counsel is of the opinion that litigations which are currently pending will not have a material impact on the reported financial results or future operations of the Bank.

48 LEASE ARRANGEMENTS

48.1 Operating Lease Commitments - Bank as Lessee

The Bank has entered into commercial leases for branch premises. These lease agreements have an average life of between five and ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments due under such lease agreements as at reporting period are as follows:

	2018 Rs.	2017 Rs.
Within one year	290,118,848	229,835,922
After one year but not more than five years	760,117,672	995,555,756
More than five years	332,902,640	313,074,108
	1,383,139,160	1,538,465,786

NOTES TO THE FINANCIAL STATEMENTS

48.2 Finance Lease Receivables

The Bank leases a variety of assets such as motor vehicles, machinery and equipments to third parties under finance leases. At the end of the lease terms assets may be sold to third parties or leases for further terms. The lease terms are fixed. Rentals are calculated to recover the cost of the assets less their residual values and earn finance income.

As at 31st December 2018	Total Future Minimum Lease Payments Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payments Rs.
Lease Rentals Receivable			
Within one year	5,121,932,819	1,173,720,877	3,948,211,942
After one year but not more than five years	7,185,126,681	1,329,699,398	5,855,427,283
More than five years	500,000	6,376	493,624
Total (Note 21.1)	12,307,559,500	2,503,426,651	9,804,132,849

As at 31st December 2017	Total Future Minimum Lease Payments Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payments Rs.
Lease Rentals Receivable			
Within one year	4,622,046,403	1,105,942,048	3,516,104,355
After one year but not more than five years	7,234,327,080	1,300,794,250	5,933,532,830
More than five years	-	-	-
Total (Note 24.1)	11,856,373,483	2,406,736,298	9,449,637,185

Accumulated allowance for uncollectible minimum lease payments are disclosed in Note 21.5 and Note 24.5.

49 RELATED PARTY DISCLOSURE

The Bank carries out transactions in the ordinary course of business with parties who are defined as "Related Parties" in LKAS 24 - ' Related Party Disclosures'. The terms and conditions of such transactions are disclosed under Note 49.4 and Note 49.5.

49.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

49.2 Transactions with Key Management Personnel of the Bank

The Bank has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the Bank as the 'Key Management Personnel' in accordance with LKAS 24 : 'Related Party Disclosures'. Accordingly, the Chief Executive Officer and the Board of Directors have been identified as 'Key Management Personnel' (KMP) for Accounting and Financial Reporting purposes.

49.3 Compensation of Key Management Personnel of the Bank

The following represents the compensation paid to Key Management Personnel of the Bank.

	2018 Rs.	2017 Rs.
Short-term Benefits	58,399,325	57,440,563
Retirement Benefits	3,213,183	2,083,700
	61,612,508	59,524,263

Short-term benefits represent salaries, bonuses and other related expenses of Chief Executive Officer/ Director and fees paid to Non Executive Directors including the Chairman. Retirement Benefits includes the Bank's contribution for Employees' Provident Fund and Employees' Trust Fund with regard to KMP's.

The presentation and classification of the previous year have been amended for better presentation and to be comparable with those of the current year.

49.4 Transactions with Key Management Personnel of the Bank

The Bank enters into transactions, arrangements and agreements with Key Management Personnel and Close family members of Key Management Personnel in the ordinary course of business. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest/commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for individual impairment losses on amounts owed by the Key Management Personnel and their Close Family Members.

	2018 Rs.	2017 Rs.
Assets		
Loans and Advances	50,000,868	55,067,901
Liabilities		
Deposits and Borrowings	425,926,684	315,883,948
Income and Expenses		
Interest Income	1,257,466	5,812,462
Interest Expense	46,884,546	31,160,425
Fee and Commission Income	30,425	107,956

49.5 Transactions with Other Related Parties of the Bank

In addition to transactions with Key Management Personnel and their Close Family Members, the Bank enters into transactions, arrangements and agreements with entities that have a significant influence over the Bank in the ordinary course of business. The transactions below were made in the ordinary course of business on substantially the same terms, including interest/ commission rates and security, as for comparable transactions with unrelated counterparties. The transaction did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for individual impairment losses on amounts owed by related parties.

	2018 Rs.	2017 Rs.
Assets		
Loans and Advances	-	37,626
Liabilities		
Deposits	6,182,826	5,335,474
Income and Expenses		
Interest Income	584	248,772
Interest Expense	285,965	222,140
Fee and Commission Income	22,850	4,125

NOTES TO THE FINANCIAL STATEMENTS

50 EVENTS AFTER THE REPORTING DATE

There were no events after the reporting date which require adjustments to or disclosures in the Financial Statements.

51 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital requirements of the local prudential regulator i.e. Central Bank of Sri Lanka. The adequacy of the Bank's Capital is monitored using among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BCBS) and adopted by the Central Bank of Sri Lanka.

Capital Management

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains healthy credit ratings and healthy capital ratios to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities. However, those are under constant review by the Board Strategic Planning Committee and the Board of Directors.

The Banking Act Direction No. 01 of 2016 on "Capital Requirements under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's)" prescribes minimum capitals ratios for banks depending on the size of the asset base. For the purpose of the Direction, Central Bank of Sri Lanka has identified Banks with over Rs.500 billion asset base as 'Domestic Systemically Important Banks (D-SIB's)' and prescribed higher minimum Capital buffers. Since the Bank's asset base is below Rs.500 billion at the year end, the minimum capital ratio requirements stipulated in the below table applies;

Components of Capital	1st January 2018	1st January 2019
Common Equity Tier 1 Including Capital Conservation Buffer	6.375%	7.000%
Total Tier 1 Including Capital Conservation Buffer	7.875%	8.500%
Total Capital Ratio Including Capital Conservation Buffer	11.875%	12.500%

The 'Total Capital' under BASEL III consists Common Equity Tier 1 Capital, which comprises Stated Capital, Statutory Reserve Fund, Published Retained Earnings and Other General Reserves less cost of Intangible Assets (Adjustments). The other component of Tier 1 Capital is Additional Tier 1 Capital and Bank has no any Additional Tier 1 Capital instruments at the end of the year. Tier 2 Capital is the other component of the Total Capital which includes Approved Revaluation Surpluses, Subordinated Term Debt and General Provisions after adjustments.

The Bank reported a Common Equity Tier 1 (CET 1) Capital Ratio of 11.51%, Total Tier 1 Capital Ratio of 11.51% and Total Capital Ratio of 13.32% as at 31st December 2018 which remain above the minimum regulatory requirements.

The Bank has absorbed 25% of the day 1 impact of Adoption of SLFRS 9 in computation of the above capital ratios as at 31st December 2018 as prescribed by Central Bank of Sri Lanka in the Guideline No. 04 of 2018 on 'Adoption of SLFRS 9 - Financial Instruments'. Had SLFRS 9 day 1 impact not been absorbed to Retained Earnings, both Common Equity Tier 1 & Tier 1 ratios would have been improved by 26 bps each, whereas Total Capital Ratio would have been improved by 25 bps.

In addition to above the Bank needs to enhance its Total Tier 1 Capital to Rs. 20 billion by 31st December 2020 as required under the Banking Act Direction No. 05 of 2017 on 'Enhancement of Minimum Capital Requirements of Banks'. As at 31st December 2018 the Bank's Total Tier 1 Capital stood at Rs. 11.34 billion.

52 SEGMENT REPORTING

	2018			
	Retail and SME Banking Rs.	Corporate Banking Rs.	Treasury and Investments Rs.	Total Rs.
Gross Income				
Third Party	15,864,704,101	2,586,890,565	3,220,598,802	21,672,193,468
Inter-Segment	1,693,673,114	322,340,124	(2,016,013,238)	-
Total Income	17,558,377,215	2,909,230,689	1,204,585,564	21,672,193,468
Extract of Results				
Interest Income	14,220,956,244	2,519,028,371	2,417,151,047	19,157,135,662
Interest Expense	(10,492,488,280)	(2,059,685,261)	(86,667,560)	(12,638,841,101)
Inter-Segment	1,693,673,114	322,340,124	(2,016,013,238)	-
Net Interest Income	5,422,141,078	781,683,234	314,470,249	6,518,294,561
Fee and Commission Income	1,567,773,721	58,632,159	4,000	1,626,409,880
Fee and Commission Expense	(95,225,962)	-	(11,502,787)	(106,728,749)
Net Fee and Commission Income	1,472,547,759	58,632,159	(11,498,787)	1,519,681,131
Net Gains from Trading	(478,825)	-	476,908,684	476,429,859
Other Operating Income	76,452,962	9,230,035	326,535,070	412,218,067
Total Operating Income	6,970,662,974	849,545,428	1,106,415,216	8,926,623,618
Impairment Charges on Financial Assets	(1,070,316,331)	(914,303,157)	(32,527,044)	(2,017,146,532)
Net Operating Income	5,900,346,643	(64,757,729)	1,073,888,172	6,909,477,086
Depreciation of Property, Plant and Equipment	129,175,303	21,402,932	8,862,021	159,440,256
Amortisation of Intangible Assets	27,846,605	4,613,877	1,910,405	34,370,887
Segment Result	5,743,324,735	(90,774,538)	1,063,115,746	6,715,665,943
Unallocated Expenses	-	-	-	4,115,010,458
Operating Profit Before Taxes and Levies on Financial Services	-	-	-	2,600,655,485
Taxes and Levies on Financial Services	-	-	-	690,998,636
Profit Before Tax	-	-	-	1,909,656,849
Income Tax Expense	-	-	-	368,014,002
Profit for the Year	-	-	-	1,541,642,847
Other Comprehensive Income for the Year	-	-	-	18,382,696
Total Comprehensive Income for the Year	-	-	-	1,560,025,543
Segment Assets	93,172,489,572	17,135,674,658	35,006,624,033	145,314,788,263
Unallocated Assets	-	-	-	8,711,494,560
Total Assets	93,172,489,572	17,135,674,658	35,006,624,033	154,026,282,823
Segment Liabilities	111,294,605,678	26,617,129,552	1,564,725,192	139,476,460,422
Unallocated Liabilities and Equity	-	-	-	14,549,822,401
Total Liabilities and Equity	111,294,605,678	26,617,129,552	1,564,725,192	154,026,282,823

NOTES TO THE FINANCIAL STATEMENTS

	2017			
	Retail and SME Banking Rs.	Corporate Banking Rs.	Treasury and Investments Rs.	Total Rs.
Gross Income				
Third Party	12,176,425,717	2,527,977,438	2,980,268,386	17,684,671,541
Inter-Segment	1,561,583,444	(131,589,360)	(1,429,994,084)	-
Total Income	13,738,009,161	2,396,388,078	1,550,274,302	17,684,671,541
Extract of Results				
Interest Income	10,811,717,597	2,473,703,407	2,330,592,589	15,616,013,593
Interest Expense	(8,673,541,722)	(1,798,577,839)	(437,620,556)	(10,909,740,117)
Inter-Segment	1,561,583,444	(131,589,360)	(1,429,994,084)	-
Net Interest Income	3,699,759,319	543,536,208	462,977,949	4,706,273,476
Fee and Commission Income	1,354,315,720	53,932,015	28,000	1,408,275,735
Fee and Commission Expense	(85,056,700)	-	(11,275,632)	(96,332,332)
Net Fee and Commission Income	1,269,259,020	53,932,015	(11,247,632)	1,311,943,403
Net Gain/(Loss) from Trading	(615,631)	342,016	391,671,428	391,397,813
Net Gain from Available for Sale Financial Investments	823,500	-	-	823,500
Other Operating Income	10,184,531	-	257,976,369	268,160,900
Total Operating Income	4,979,410,739	597,810,239	1,101,378,114	6,678,599,092
Impairment charges on Financial Assets	(436,794,895)	(57,591,055)	-	(494,385,950)
Net Operating Income	4,542,615,844	540,219,184	1,101,378,114	6,184,213,142
Depreciation of Property, Plant and Equipment	140,161,078	24,448,982	15,816,565	180,426,625
Amortisation of Intangible Assets	25,685,740	4,480,489	2,898,523	33,064,752
Segment Result	4,376,769,026	511,289,713	1,082,663,026	5,970,721,765
Unallocated Expenses	-	-	-	3,518,788,216
Operating Profit Before Taxes and Levies on Financial Services	-	-	-	2,451,933,549
Taxes and Levies on Financial Services	-	-	-	576,477,542
Profit Before Tax	-	-	-	1,875,456,007
Income Tax Expense	-	-	-	484,954,113
Profit for the Year	-	-	-	1,390,501,894
Other Comprehensive Income for the Year	-	-	-	341,952,363
Total Comprehensive Income for the Year	-	-	-	1,732,454,257
Segment Assets	82,749,551,784	18,167,014,112	28,240,659,773	129,157,225,669
Unallocated Assets	-	-	-	9,344,459,395
Total Assets	82,749,551,784	18,167,014,112	28,240,659,773	138,501,685,064
Segment Liabilities	105,523,148,806	16,177,395,167	3,610,592,111	125,311,136,084
Unallocated Liabilities and Equity	-	-	-	13,190,548,980
Total Liabilities and Equity	105,523,148,806	16,177,395,167	3,610,592,111	138,501,685,064

COMPLIANCE WITH DISCLOSURE REQUIREMENTS SPECIFIED BY THE CENTRAL BANK OF SRI LANKA

The following explains the Other Disclosure Requirements under the prescribed format issued by the Central Bank of Sri Lanka for the Preparation of Annual Financial Statements of Licensed Commercial Banks.

1.	Information about the Significance of Financial Instruments for Financial Position and Performance		
1.1	Statement of Financial Position		
1.1.1	Disclosures on categories of financial assets and financial liabilities.		Note 41 to the Financial Statements - Analysis of Financial Assets and Liabilities by Measurement basis
1.1.2	Other Disclosures		
	(i)	Special disclosures about financial assets and financial liabilities designated to be measured at Fair Value through Profit or Loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Not Applicable
	(ii)	Reclassifications of financial instruments from one category to another.	Note 42.3 to the Financial Statements - Re-classification of Financial Assets
	(iii)	Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Notes to the Financial Statements - Note 22.2 and Note 27.2
	(iv)	Reconciliation of the allowance account for credit losses by class of financial assets.	Notes to the Financial Statements - Note No's 16.1, 18.1, 21.5, 22.3 and 24.5.
	(v)	Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
	(vi)	Significant Breaches of terms of loan agreements.	There are no significant breaches of the terms of loan agreements.
1.2	Statement of Comprehensive Income		
1.2.1	Disclosures on items of income, expense, gains and losses.		Note 5 - 13 to the Financial Statements
1.2.2	Other Disclosures		
	(i)	Total interest income and total interest expense for those financial instruments that are not measured at Fair Value through Profit or Loss.	Note 5.2 to the Financial Statements - Net Interest Income from Financial Instruments not Measured at Fair Value through Profit or Loss.
	(ii)	Fee income and expense.	Note 6 to the Financial Statements - Net Fee and Commission Income
	(iii)	Amount of impairment losses by class of financial assets.	Note 10 to the Financial Statements - Impairment charges on Financial Assets
	(iv)	Interest income on impaired (non performing) financial assets.	Note to the Financial Statements - Note 5.3
1.3	Other Disclosures		
1.3.1	Accounting policies for financial instruments.		Note 2.8 to the Financial Statements -Summary of Significant Accounting Policies
1.3.2	Information on hedge accounting		Not Applicable
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:		
	(i)	Comparable Carrying Amounts.	Note 42 to the Financial Statements - Fair Value of Financial Instruments
	(ii)	Description of how fair value was determined.	
	(iii)	The level of inputs used in determining fair value.	
	(iv)	(a) Reconciliations of movements between levels of fair value measurement hierarchy.	Not Applicable
		(b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	Not Applicable
	(v)	Information if fair value cannot be reliably measured.	Notes to the Financial Statements - Note 25 and Note 26.

BASEL III PILLAR 3 DISCLOSURES

Contents

Introduction

The Bank recognises, best corporate governance practices jointly with effective risk management techniques which directs Bank towards the sustainable achievement in business goals while staying above the minimum regulatory requirements.
The Banks usually operate in a vulnerable environment and are highly exposed to risk. Therefore, the Bank places a higher emphasis on a continuous basis on improving risk management processes and operating with sufficient level of capital to support its risk absorption capacity and business expansions. The Bank's risk management team has to play a vital role in maintaining prudential risk management practices across the Bank which enables early detection of down side risks in all its businesses and other operations.

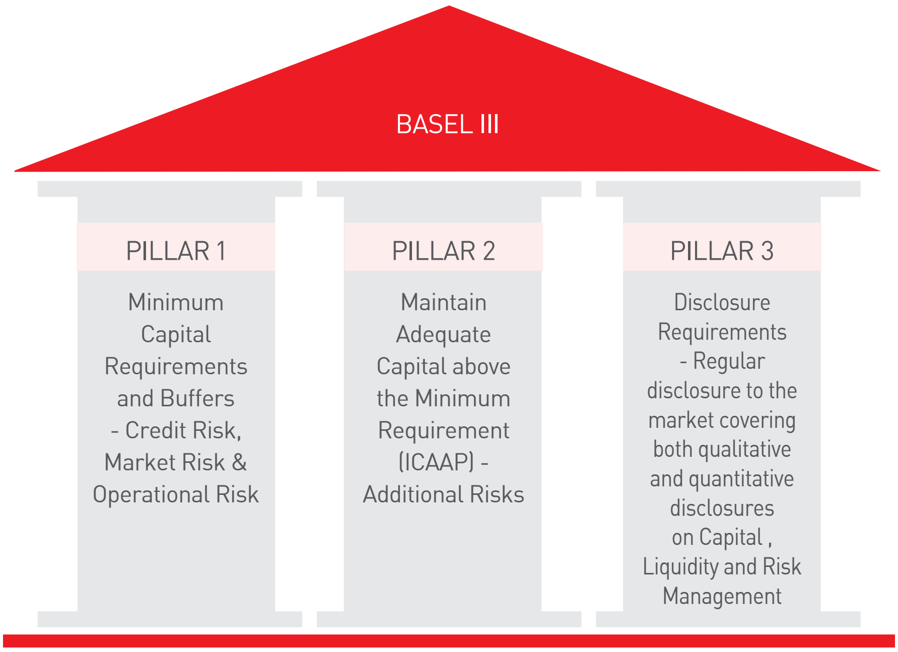
Based on empirical data and close analysis of market behaviour, the Bank is of the belief that effective investment in robust risk management practices would facilitate in mitigating the credit, market, operational and the other risk factors facing the Bank.

Further use of market discipline is deemed to be an important driver in the enhancement of the risk management system from the Bank as well as the stakeholders' perspective. Therefore, the Bank believes comprehensive disclosure of capital level in relation to the credit risk, market risk and operational risk levels would fulfill the expectations of the regulators as well as other stakeholders at large.

Scope of Basel III Framework

The Basel Committee on Bank Supervision (BCBS) has implemented a set of capital, liquidity and funding reforms known as "Basel III". The objectives of reforms are to increase the quality, consistency and transparency of capital to enhance the risk management framework of Licensed Banks.

Accordingly, the Central Bank of Sri Lanka has issued Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's) on 29th December 2016. As per the direction, Capital Requirements applicable for a Licensed Commercial Bank from 1st July 2017 onwards consist of three pillars.



Pillar 1 - Minimum Capital Requirements and Buffers

Commencing from 01st July 2017, every LCB & LSB has to comply with minimum capital ratios and the buffers as prescribed in the direction. The minimum required capital ratios vary among the Banks depending on the size of the asset base. For the purpose of the direction, Central Bank of Sri Lanka has identified Banks with over Rs.500 billion asset base as "Domestic Systemically Important Banks (D-SIB's)" and prescribed higher minimum capital buffers than that of banks with less than Rs.500 billion assets.

BASEL III PILLAR 3 DISCLOSURES

Accordingly, the Banks have to maintain capital ratios and the buffers as prescribed in the below tables;

Minimum Capital Ratio Requirement for Banks with Assets of Rs.500 billion and above (Table 1)

Components of Capital	1st January 2018	1st January 2019
Common Equity Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	7.375%	8.50%
Total Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	8.875%	10.00%
Total Capital Ratio Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	12.875%	14.00%

Minimum Capital Ratio Requirement for Banks with Assets less than Rs.500 billion (Table 2)

Components of Capital	1st January 2018	1st January 2019
Common Equity Tier 1 Including Capital Conservation Buffer	6.375%	7.00%
Total Tier 1 Including Capital Conservation Buffer	7.875%	8.50%
Total Capital Ratio Including Capital Conservation Buffer	11.875%	12.50%

Since the Bank's asset base is below Rs. 500 billion at the moment, minimum capital ratio requirement stipulated in Table 2 applies.

The Bank is in the process of actively seeking sources to inject capital and is also taking measures to improve credit quality of the asset book to comply with the additional capital requirements arise with the increase of capital conservation buffer by 0.625% effective from 01st January 2019.

Pillar 2 - Maintain Adequate Capital above the Minimum Requirement (ICAAP)

The Bank needs to maintain adequate capital buffers to safeguard it self from the exposure to risk as specified in the direction. Under Pillar 2, a Board approved ICAAP document needs to be submitted to the Central Bank for supervisory review process. ICAAP lets Banks to identify, analyse and quantify its risk exposures using different methodologies, techniques and to quantify required level of capital to absorb the risks.

Further under Pillar 2, Banks are instructed to scrutinise different types of risks which are not covered/fully captured under Pillar 1. Accordingly, following risk categories also need to be quantified and allocation of capital needs to be done in computing the Pillar 2 Capital Ratios.

- Risks not fully captured under Pillar 1 - concentration risk (credit risk), interest rate/rate of return risk in the banking book (market risk) etc.
- Risk types not covered under Pillar 1 - liquidity risk, concentration risk, reputational risk, compliance risk, strategic and business risk, residual risk. etc. (risks which are not specifically addressed under Pillar I)

The Bank has already developed an ICAAP policy and framework which closely indicate the risk and capital assessment processes which ensures that adequate level of capital are maintained to support the Bank's current and projected demand for capital under expected and stressed conditions.

Pillar 3 - Disclosure Requirements

Commencing from 1st July 2017, the Bank needs to disclose the regulator prescribed key information in relation to regulatory capital, liquidity and risk management with the published financial statements, in the annual report and in the web site.

Pillar 3 aims to provide consistent and comprehensive disclosure framework that enhances comparability between Banks and further promotes improvements in risk practices.

The Bank has implemented a Pillar 3 policy and procedure framework to address the requirements laid down for Pillar 3 disclosures.

The complete disclosure report of information regarding capital management in accordance with Basel III- Pillar 3 is provided of which quantitative information regarding capital structure, capital adequacy and monitoring of liquidity standards is disclosed on a quarterly basis. The disclosures on Bank's risk management approach and risk management related to key risk exposures are disclosed on an annual basis.

Scope of Application

In compliance with the requirements under Basel III Pillar 3 and the Bank's approved policies, the Bank discloses below set of information on quarterly and annually as prescribed by CBSL.

1) Regulatory Requirements on Capital Adequacy and Liquidity

i) Key Regulatory Ratios - Capital and Liquidity

ii) Basel III Computation of Capital Adequacy Ratio

iii) Basel III Computation of Liquidity Coverage Ratio

iv) Main Features of Regulatory Capital Instruments

2) Risk Weighted Assets (RWA)

i) Capital Management

ii) Credit Risk under Standardised Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

iii) Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

iv) Market Risk under Standardised Measurement Method

v) Operational Risk under Basic Indicator Approach

3) Linkages Between Financial Statements & Regulatory Exposures

i) Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

ii) Explanations of Differences between Accounting and Regulatory Exposure Amounts

4) Risk Management

i) Bank's Risk Management Approach

ii) Risk Management related to Key Risk Exposures

BASEL III PILLAR 3 DISCLOSURES

Macro Economic Factors

During year 2018, the Sri Lankan economy faced renewed challenges emanating from global market developments. The economy grew at a moderate pace during 2018 following subdued growth in 2017.

The tight monetary policy led to restrained money supply and benign inflation although the rupee weakened quite sharply due to foreign outflows from Government Securities.

Operating in a very challenging, competitive and highly regulated surrounding, the Bank sustained its asset growth during the year while giving priority on achieving of regulatory requirements as well.

Due to proactive measures adopted by the Bank to preserve the capital, the Bank's loans and advances portfolio grew moderately during the year while ascertaining asset quality and overall liquidity. Even under less favourable monetary and economic conditions, the Bank recorded a post tax profit of Rs.1.54 billion in 2018 which accounts for a growth of 11% over the previous year.

Key Regulatory Ratios - Capital and Liquidity

As at 31st December	2 018	2 017
Regulatory Capital (Rs. 000)		
Total Common Equity Tier 1 Capital	11,341,900	10,039,254
Common Equity Tier 1 Capital	11,036,817	9,754,864
Tier 1 Capital	11,036,817	9,754,864
Total Capital	12,767,157	11,588,904
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement -6.375%)	11.51	11.38
Tier 1 Capital Ratio (Minimum Requirement -7.875%)	11.51	11.38
Total Capital Ratio (Minimum Requirement -11.875%)	13.32	13.53
Regulatory Liquidity		
Statutory Liquid Assets DBU (Rs'000)	41,565,575	27,347,197
Statutory Liquid Assets OBU (USD'000)	14,393	7,907
Regulatory Liquidity Ratios (%)		
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	29.17	23.25
Off-Shore Banking Unit (%)	20.09	27.04
Liquidity Coverage Ratio (%) (Minimum Requirement as at 31st December 2018 - 90%) 2017 - 80%		
Rupee	166.08	208.84
All Currency	136.52	195.36

Capital Management

Capital planning assists the Bank to determine how much capital it needs to continue its growth and produce meaningful earnings as well as to meet regulatory requirements. For an effective capital plan, the Bank should be able to anticipate;

- when it will be needed
- various methods of raising capital
- the current environment for raising capital
- the best way to protect/enhance shareholder value and the likely pricing of capital

Further the Bank's capital plan is dynamic and regularly review to reflect business forecasts as they evolve during the course of each year. The strategy setting and planning is presented to the Board of Directors on an annual basis with regular update on financial outlook and performance as to the capital adequacy is aligned with the business plan.

Capital planning of the Bank is mainly focus on;

- Demand for capital due to business growth forecast
- Current & future regulatory capital requirement
- Available supply of capital and capital raising sources for future requirements

Overview of Capital Planning

The senior management of the Bank is responsible for the management of the capital & liquidity and establishment of compliance with internal policies as well as regulatory standards relating to capital & liquidity management.

The Bank's capital position is monitored on a continuous basis and reported to the Board Strategic Planning Committee meetings on a quarterly basis. The Bank sets the tolerance levels for capital adequacy ratios in the ICAAP mechanism and if any breach or non compliance to be foreseen, decisions are taken to enhance capital position or restructure business lines to fill the gap.

Further capital forecasts are performed in line with detailed strategic plan of the Bank which is updated on an annual basis. The Bank regularly monitors the actual position against the strategic measures and if any deviation to be captured, relevant business heads are informed of corrective actions.

In addition, significant emphasis is given to scrutinise the behaviour of the material risk exposures. If any adverse movement is monitored in recovery patterns of the credit exposures on a regular basis, credit monitoring unit of the Bank stays on alert for early detection and recovery process before moving to non performing category. This is exactly why the Bank established a Post Disbursement Unit to ensure the facilities would not fall in to non-performing status.

Manage the Risk Weighted Assets of the Bank

- Maintain Non Performing Advances (NPAs) level in accordance with the set targets by minimising new additions to past due and non performing categories
- Regular monitoring of overdue loans position of the Bank and avert new NPAs
- Ensure capital and interest recoveries are made to the Bank according to the forecasts.
- High yielding lending to good credit quality customers
- Obtain eligible collateral for facilities to minimise capital charge on credit risk
- Concentrate on customers with investment grade or above grades when granting facilities
- More focus towards cash backed/government security backed lending carrying zero risk levels
- Concentrate on Retail and SME lending with background checks in view of lower risk weight and lucrative returns

BASEL III PILLAR 3 DISCLOSURES

Projected Capital Initiatives/ Capital Sources

An assessment of the future capital requirement of the Bank is carried out by taking in to account several factors which include but not limited to the future strategy, growth projection and regulatory requirement. The adequacy of current and future capital is continuously monitored quite closely in line with the Bank's short, medium and long term goals stated in the strategic plan plus considering any emerging market opportunities. The proper mapping of credit, market and operational risk to this projected business growth enables assignment of capital that not only adequately covers minimum regulatory capital requirement but also provide headroom for growth.

The Bank complied with minimum regulatory capital and liquidity standards set for year 2018 with the contribution of anticipated internal capital generation over the period. However in anticipation of elevated minimum capital adequacy ratios arising from forthcoming full implementation of BASEL III - minimum capital adequacy ratios which demands higher capital requirements effective from January 1, 2019, the Bank expects to issue Basel III compliant subordinated debt instrument to enhance the Tier 2 capital.

Complying with Rs.20 Billion Minimum Capital Requirements

As per the Banking Act Direction No. 05 of 2017 on 'Enhancement of Minimum Capital Requirements of Banks' issued on 26th October 2017 by Central Bank of Sri Lanka, commencing from 31st December 2020 all banks are mandated to enhance its Capital position (Common Equity Tier 1 Capital + Additional Tier 1 Capital) up to Rs. 20 Billion from the current level.

The Bank has already provided the forecasted capital augmentation plan along with the ICAAP 2017 document submitted to the Central Bank.

The Bank expects to submit ICAAP document 2018 along with updated version of the capital augmentation plan adjusting for the dampened impact to retained earnings which arose from the adoption of SLFRS 9, other tax implications and changes in macro economical factors. The Bank expect the contribution of Both internal generation & external capital infusions to pursue the target.

Capital Structure and Capital Adequacy

The Bank's capital structure according to the Banking Act Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB) and Licensed Specialised Banks (LSB) is revised in to Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital.

Common Equity Tier 1 (CET 1) Capital of the Bank comprises;

- Stated Capital
- Retained Earnings after appropriations
- Statutory Reserve Fund

At present the Bank has no instrument eligible for Additional Tier 1 (AT1) Capital.

Tier 2 Capital comprises;

- Eligible Subordinated Debt Instruments (limited to 50% of CET 1 Capital)
- General provision for Performing and Special Mention Credit Facilities (limited to 1.25% of risk weighted assets on credit risk)
- Approved Revaluation Surpluses on Freehold Land and Building (Subject to a discount of 50%)

As per the regulatory directive, maximum eligible Tier 2 capital is capped at 100% of CET1 Capital.

The Structure of the Total Regulatory Capital of the Bank

As at 31st December 2018	Amount Rs. 000
Common Equity Tier I (CETI) Capital after Adjustments	11,036,817
Total Common Equity Tier I (CET1) Capital before Adjustments	11,341,900
Stated Capital	3,614,253
Reserve Fund	451,189
Published Retained Earnings*	7,294,841
Published Accumulated Other Comprehensive Income (OCI)	(18,383)
Total Adjustments to CET1 Capital	305,083
Other Intangible Assets (net)	305,083
Additional Tier 1 (AT1) Capital after Adjustments	-
Tier 2 Capital after Adjustments	1,730,340
Total Tier 2 Capital	1,730,340
Qualifying Tier 2 Capital Instruments	450,000
Revaluation Gains	311,906
General Provisions	968,434
Total Adjustments to Tier 2 Capital	-
Total Tier 1 Capital	11,036,817
Total Capital	12,767,157

* Note: As per the CBSL direction No.04 of 2018 on 'Adoption of Sri Lanka Accounting Standard - SLFRS 9 : Financial Instruments, the Bank staggered the impact of additional impairment provisions (net of deferred tax) as at the date of transition, for the purpose of calculating Capital Adequacy Ratio (CAR %) as at 31st December 2018. Accordingly, the Bank has absorbed only 25% of the day 1 impact into the Retained Earnings for the purpose of computing CAR% as at 31st December 2018.

BASEL III PILLAR 3 DISCLOSURES

Basel III Computation of Capital Ratios

As at 31st December	2 018 Rs. 000	2 017 Rs. 000
Common Equity Tier 1 (CET1) Capital after Adjustments	11,036,817	9,754,864
Common Equity Tier 1 (CET1) Capital	11,341,900	10,039,254
Stated Capital	3,614,253	3,614,253
Reserve Fund	451,189	374,106
Published Retained Earnings	7,294,841	6,050,894
Published Accumulated Other Comprehensive Income (OCI)	(18,383)	-
General and other Disclosed Reserves	-	-
Unpublished Current Year's Profit/Losses and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	305,083	284,390
Goodwill (net)	-	-
Intangible Assets (net)	305,083	284,390
Others	-	-
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (ATI) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others	-	-
Tier 2 Capital after Adjustments	1,730,340	1,834,040
Tier 2 Capital	1,730,340	1,834,040
Qualifying Tier 2 Capital Instruments	450,000	1,050,000
Revaluation Gains	311,906	315,317
Loan Loss Provisions	968,434	468,723
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2 Capital	-	-
Investment in Own Shares	-	-
Others	-	-
CET1 Capital	11,036,817	9,754,864
Total Tier 1 Capital	11,036,817	9,754,864
Total Capital	12,767,157	11,588,904
Total Risk Weighted Assets (RWA)	95,854,315	85,683,217
RWAs for Credit Risk	86,562,741	76,883,248
RWAs for Market Risk	51,471	508,835
RWAs for Operational Risk	9,240,103	8,291,134
CET1 Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	11.51	11.38
of which: Capital Conservation Buffer (%)	1.88	1.25
Total Tier 1 Capital Adequacy Ratio (%)	11.51	11.38
Total Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	13.32	13.53
of which: Capital Conservation Buffer (%)	1.88	1.25

Regulatory Changes / Capital Initiatives over the Period

- Tier 1 Capital has been changed during the period due to capitalisation of internal capital generation for 2018
- Tier 2 capital has been changed due to movements in General provision for Performing and Special Mention Credit Facilities and statutory discounting effect of the existing subordinated debentures.

Main Features of Regulatory Capital Instruments

	Ordinary Shares	Subordinated Debt
Issuer	Pan Asia Banking Corporation PLC	Pan Asia Banking Corporation PLC
CSE Security Code	PABC N0000	PABC D0300 PABC D0301
Governing Law(s) of the Instrument	Companies Act, No.7 of 2007	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
Original Date of Issuance	Multiple	30th October 2014
Par Value of Instrument (Rs.)	N/A	100
Perpetual or Dated	Perpetual	Dated
Original Maturity Date	N/A	29th October 2019
Regulatory Treatment		
Instrument Type	Common Equity Tier 1	Tier 2 Capital
Amount recognised in Regulatory Capital (Rs. million)	3,614	450
Accounting Classification (Equity/Liability)	Shareholders' Equity	Liability (Subordinated Term Debts)
Issuer Call subject to Prior Supervisory Approval	No	Yes
Optional Call Date, Contingent Call Dates and Redemption Amount	N/A	Early repayment or redemption shall not be made without the prior consent from CBSL. The redemption amount of the debentures equal to total outstanding principal (Rs. 3,000 million) plus accrued interest
Coupons/Dividends		
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Fixed Rate
Coupon Rate and any Related Index	Distributable profit that has been declared as dividend	9.75% (Annual Interest Payment) 9.5233% (Semi Annual Interest Payment)
Non-Cumulative or Cumulative	Non Cumulative	Non Cumulative
Convertibility	Non-Convertible	Non-Convertible

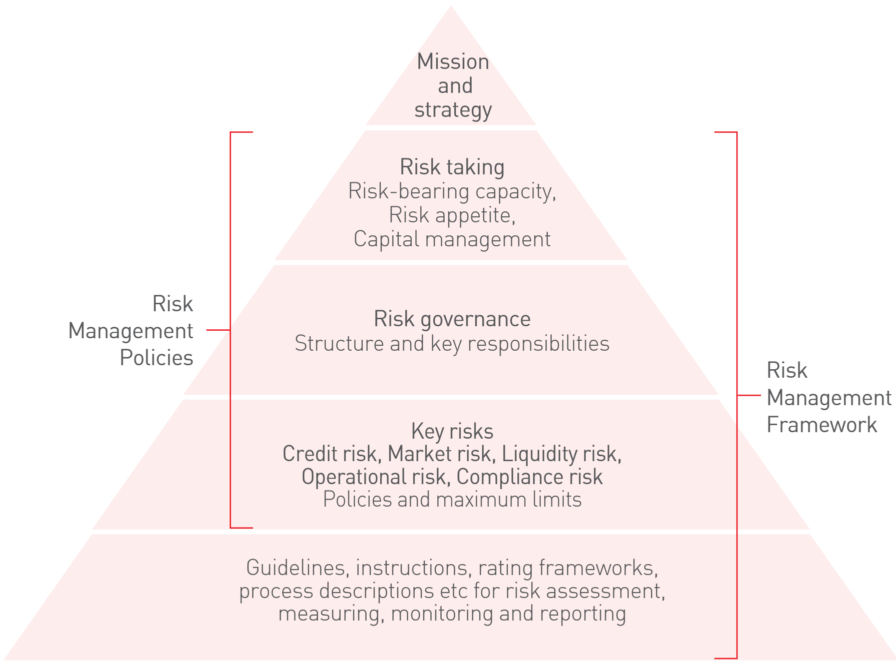
BASEL III PILLAR 3 DISCLOSURES

Risk Management Approach

Managing risk constitutes an integral part in the role of banking operations and also in the areas of strategic decisions of the Bank. The main objective of the Bank's risk management unit is to asses various risk factors that affect the Bank and to develop risk mitigating techniques incorporating industry best practices and stipulations given by the regulator. The Bank's exposure to risk can be broadly categorised into credit risk, market risk and operational risk. In addition to these risks, the impact of other risks such as liquidity risk, reputational risk, compliance risk, strategic risk, information security risk and legal risk are monitored to avoid any additional impact to the Bank. Therefore, the Bank has set up separate units to manage credit, market, operational and information security risks.

The overall risk management aspects of the Bank are reviewed via risk goals and tolerance/ exposure limits set by the Board Integrated Risk Management Committee.

The high-level principles for risk management are implemented through policies, operational procedures, guidelines as well as methodologies, tolerance & exposure limits and tools for risk measuring, monitoring and reporting. The risk management framework of the Bank is formed by incorporating all these factors and same is illustrated in the below diagram.



Further information on Risk Management can be found in;

- Risk Management objectives, policies and processes and Risk Management structure - pages 194 & 195 of Bank's Annual Report 2018
- Risk Management function - page 196 of Bank's Annual Report 2018

Channels to communicate and inculcating the risk culture within the Bank

The responsibility of understanding the risks assumed by the Bank and ensuring that the risks are appropriately managed is vested with the Board of Directors. The Board ensures that the Bank has established a robust and acceptable risk culture with clear policies that define risk management as the responsibility of the Bank's corporate and senior management subject to the oversight of the Board establishing limits based on risk appetite of the Bank. The senior management has established an integrated risk management framework in order to assess and appropriately manage various risk exposures of the Bank, develop systems to monitor risk exposures and relate them to Bank's capital on an ongoing basis, establishing methods to monitor the Bank's compliance with internal policies relating to risk management and effectively communicate all policies and procedures throughout the Bank via Bank's intranet and training programmes. All policies and procedures are effectively documented in the form of policy manuals, circular instruction, work flow processes and published in the Bank's intranet to provide the access to all staff members of the Bank.

The scope and main features of risk measurement systems for key risks

The Bank continuously reviews and improves risk assessment tools for different types of risks that the Bank faces in line with the growth of portfolios. The tools including credit rating and credit scoring tools are implemented in systems to ensure efficiency of rating/scoring and model performance monitoring. Moreover, the Bank has also put in place of a Risk aggregation matrix to assess the overall risk of the Bank by aggregating the overall score of each risk area. Risk dashboards are maintained to monitor all risk parameters and stress tests are being carried out in regular intervals, under various possible stress scenarios, to access the Bank's ability to face those conditions comfortably if those scenarios are actually triggered.

Process of risk information reporting provided to the Board and Senior Management

The Bank's risks are recorded according to the breaches that have taken place, expected /predicted losses and unexpected cases which may arise in future. The estimated figures of cases are monitored on regular intervals for prevention and mitigations. These events are in line with the internal risk management processes established by the Bank. Monitoring of risk is carried out against predetermined limits as per policies. Management Information System reports are generated and submitted to the Corporate Management based on these risks indicators. Certain industries are identified specially and highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted on agreed intervals to the Board/Management committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports indicate aggregate credit exposures, credit metric forecasts, hold limit exceptions and liquidity ratios. Further elaborations are done on industry, concentration, customer and geographical risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored regularly for adherence. Delegated authority limits have been imposed to each approving authority in the business lines to control exposure to risks. Those outwit such limits are referred to Credit Risk Management Committee/Board Credit Committee for approval.

Stress Testing

Stress testing is an important risk management tool that is used by the Bank as part of internal risk management measures. The Stress testing alerts the Bank management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur.

Moreover, stress testing is a tool that supplements other risk management approaches and measures. It plays a particularly important role in:

- Providing forward-looking assessments of risk.
- Feeding into capital and liquidity planning procedures.
- Informing the setting of the Banks' risk tolerance.
- Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions.

The main risk drivers may be identified under following areas;

On and off balance sheet activities, business strategy, portfolio composition, asset quality, reputational events, operating environment, macro-economic factors (interest rate, foreign exchange rate, inflation, GDP growth, unemployment rate, asset prices, property price index), geographical and political factors, historical events; and latest developments in the economic, political, geographical and global conditions and perspectives.

Stress Testing Approaches and Applications

Stress testing approaches that the Bank adopts to ascertain the risks of the portfolios.

Sensitivity Analysis

This assesses the impact on a Bank's financial condition of a move in one particular risk factor, identify how portfolios respond to shifts in relevant economic variables or risk parameters. i.e. the Bank's exposures, activities, and risks when certain variables, parameters and inputs are 'stressed' or 'shocked.'

BASEL III PILLAR 3 DISCLOSURES

Scenario Analysis

Single factor analysis can be supplemented by simple multi-factor sensitivity analyses, where a combined occurrence of some risk drivers is assumed, without necessarily having a scenario in mind. Scenario tests include simultaneous moves in a number of variables based on the following and the assessment of their impact on the Bank's financial position.

- A single event experienced in the past.
- A plausible market event that has not yet happened. The Bank shall determine the various risks that shall be included in a scenario, take into account the linkages among the various risks without looking at each of them.

The Strategies and Processes to Manage, Hedge and Mitigate Risks

Possible credit losses from any given event, client or portfolio are mitigated using a range of tools such as collateral and credit insurance, taking into account expected volatility and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the protection provider. The requirement for risk mitigation is not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

The Bank's credit policies detailed out the guidelines of key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements. The Bank has policies and procedures in place setting out the criteria for collateral to be recognised as a credit risk mitigant, including requirements concerning legal certainty, priority, concentration, correlation, liquidity and valuation parameters such as frequency of review and independence.

Types of Collateral

Collateral types that are eligible for risk mitigation include cash, residential, commercial and industrial property, fixed assets such as motor vehicles, plant and machinery, marketable securities, commodities, Bank guarantees and letters of credit. Physical collateral, such as property, fixed assets and commodities and financial collateral must be independently valued and an active secondary resale market must exist. The valuation frequency sets as per the CBSL direction and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure.

For financial collateral to be eligible for recognition, the collateral must be sufficiently liquid, and its value over time sufficiently stable, to provide appropriate certainty as to the credit protection achieved.

Documentation is obtained in favour of the Bank to realise the collateral without the intervention of the obligor in the event that this is necessary. For certain types of lending, typically mortgages or asset financing where a first charge over the risk mitigant must be attained, the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. Physical collateral is required to be insured at all times against risk of physical loss or damage.

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. The Bank also seeks to diversify its collateral holdings across asset classes and markets.

Where guarantees, credit insurance or credit derivatives are used as credit risk mitigation, the creditworthiness of the protection provider is assessed and monitored using the same credit approval process applied to the obligor. The main types of guarantors include Bank guarantees, insurance companies, parent companies, governments and export credit agencies.

Credit Concentration

Concentration risk turns up when the credit portfolio is unevenly distributed to individual issuers or counterparties or within industry sectors/sub sectors, segments, internal risk ratings and geographical regions.

Sector Concentration

The Bank's sector concentration is in par with the widely accepted norms, risk appetite and regulatory requirements directed by the regulator. Exposure to each sector is closely monitored by the Board Integrated Risk Management Committee against the predetermined limits. Exposures which exceed the predetermined limits are extensively deliberated at the meeting and corrective action is taken based on regulations and risk appetite of the Bank. The committee strikes the correct blend of portfolios ensuring least impact on the business when changes taken place in the operating environment.

Strategic Risk

Strategic Risk is the risk arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation.

Reputation Risk

Reputation Risk is the risk arising from negative public opinion. This risk may expose the institution to litigation, financial loss or decline in customer base.

Risk Weighted Assets

Credit Risk

Credit Risk is the potential for loss due to the failure of counterparty to meet its obligation to pay the Bank in accordance with agreed terms. It is managed through a framework that setout credit policies, procedures and credit approval authority delegation. Further policies are decided to reflect the country specific risk environment and portfolio characteristics of the Bank.

The Bank computes risk weighted assets on credit exposures using the Standardised Approach Method. In assigning risk weights for calculation of risk weighted assets using the Standardised Approach under Basel III, the Bank uses credit ratings from External Credit Assessment Institutions (ECAIs) who meet the qualifications specified by the CBSL. The credit ratings from External Credit Assessment Institutions are applied to risk weight the claims on banks, financial institutions and corporate customers. Claims on Retail and SME customers are risk weighted based on the criteria's specified in the directions.

Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31st December 2018	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density	
Asset Class	On-Balance Sheet Amount Rs. 000	Off-Balance Sheet Amount Rs. 000	On-Balance Sheet Amount Rs. 000	Off-Balance Sheet Amount Rs. 000	RWA Rs. 000	RWA Density (%) (ii)
Claims on Central Government and Central Bank of Sri Lanka	39,064,876	-	38,499,024	-	2,163,211	6%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Bank's Exposures	1,225,094	22,018,566	1,225,094	440,371	837,985	50%
Claims on Financial Institutions	2,425,636	316,667	1,839,069	5,298	1,215,423	66%
Claims on Corporates	10,167,221	2,268,835	9,349,938	659,053	9,004,551	90%
Retail Claims	87,545,051	17,907,496	75,245,509	1,580,963	60,863,591	79%
Claims Secured by Gold	2,584,172	-	2,584,172	-	33,798	1%
Claims Secured by Residential Property	4,947,803	-	4,947,803	-	4,104,743	83%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs) (i)	4,431,435	-	4,407,087	-	5,880,540	133%
Higher-risk Categories	6,158	-	6,158	-	9,237	150%
Cash Items and Other Assets	3,859,717	-	3,859,717	-	2,449,662	63%
Total Assets	156,257,163	42,511,563	141,963,571	2,685,686	86,562,741	60%

Note:

(i) NPAs – As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning.

(ii) RWA Density – Total RWA/Exposures post CCF and CRM.

As per the regulatory directions, commencing from 01.01.2018 onwards all foreign claims on Central Government of Sri Lanka is needed to be risk weigh at 20%. Accordingly, the Bank's investments in Sri Lanka Development Bonds have been risk weighted at 20% commencing from 01st January 2018. Apart from above, the growth in risk weighted assets with the growth in balance sheet is also contributed for the deterioration in the capital Ratios.

BASEL III PILLAR 3 DISCLOSURES

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Post CCF & CRM)

As at 31st December 2018 Asset Class	Risk Weight 0% Rs. 000	2% Rs. 000	20% Rs. 000	50% Rs. 000	60% Rs. 000	75% Rs. 000	100% Rs. 000	150% Rs. 000	Total Credit Exposures Amount Rs. 000
Claims on Central Government and Central Bank of Sri Lanka	27,682,967	-	10,816,056	-	-	-	-	-	38,499,024
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	440,371	781,314	404,859	-	-	38,922	-	1,665,466
Claims on Financial Institutions	-	-	508,872	448,169	-	-	887,326	-	1,844,367
Claims on Corporates	-	-	56,441	2,129,382	-	-	7,823,168	-	10,008,991
Retail Claims	-	-	95,240	248,875	2,990,121	59,067,334	14,424,902	-	76,826,473
Claims Secured by Gold	2,415,182	-	168,990	-	-	-	-	-	2,584,172
Claims Secured by Residential Property	-	-	-	1,686,119	-	-	3,261,684	-	4,947,803
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	26,340	-	-	1,407,502	2,973,246	4,407,087
Higher-risk Categories	-	-	-	-	-	-	-	6,158	6,158
Cash Items and Other Assets	1,394,232	-	19,778	-	-	-	2,445,707	-	3,859,717
Total Assets	31,492,382	440,371	12,446,690	4,943,744	2,990,121	59,067,334	30,289,209	2,979,404	144,649,256

Credit Risk under Standardised Approach Classified by Geographical Area of Debtor - Before CCF CRM

As at 31st December 2018 Asset Classes	Outside Sri Lanka Rs. 000	Province Central Rs. 000	Eastern Rs. 000	North Central Rs. 000	North Western Rs. 000	Northern Rs. 000	Sabaragamuwa Rs. 000	Southern Rs. 000	Uva Rs. 000	Western Rs. 000	Total Rs. 000
Claims on Central Government and Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	39,064,876	39,064,876
Claims on Banks Exposures	820,235	-	-	-	-	-	-	-	-	22,423,425	23,243,660
Claims on Financial Institutions	-	2,697	-	-	-	-	-	-	-	2,739,605	2,742,302
Claims on Corporates	-	50,000	-	-	-	-	-	-	-	12,386,056	12,436,056
Retail Claims	-	9,552,883	1,697,454	2,786,522	4,510,012	1,359,539	3,194,506	5,900,344	1,682,065	74,769,222	105,452,546
Claims Secured by Gold	-	288,277	566,216	46,824	322,859	624,985	137,512	112,497	36,710	448,291	2,584,172
Claims Secured by Residential Property	-	468,981	44,215	82,695	91,504	88,021	210,183	378,567	47,132	3,536,504	4,947,803
Non-Performing Assets (NPAs)	-	442,094	80,958	113,123	320,223	61,468	184,826	295,671	61,521	2,871,551	4,431,435
Higher-risk Categories	-	-	-	-	-	-	-	-	-	6,158	6,158
Cash Items and Other Assets	-	-	-	-	-	-	-	-	-	3,859,717	3,859,717
Total Assets	820,235	10,804,932	2,388,844	3,029,165	5,244,598	2,134,012	3,727,028	6,687,079	1,827,428	162,105,406	198,768,726

Non Performing Loans and Advances Vs Provisions- by Sector/Industry

(As per Regulatory Reporting)

As as 31st December 2018 Industry	NPA Capital Rs. 000	Specific Provision Rs. 000
Agriculture,Forestry , & Fishing	793,540	131,132
Arts Entertainment & Recreation	85,026	61
Construction & Infrastructure Development	1,258,812	280,731
Consumption	940,262	332,338
Education	25,127	3,523
Financial Services	504,570	376,848
Health Care, Social Services & Support Services	5,040	1,375
Information Technology & Communication Services	42,142	25,586
Manufacturing	1,093,378	288,990
Professional, Scientific & Technical Activities	90,382	6,950
Tourism	447,938	71,873
Transportation & Storage	21,639	6,697
Wholesale & Retail Trade	819,014	169,331
Total	6,126,870	1,695,435

Non Performing Loans and Advances Vs Provisions - by Geography

(As per Regulatory Reporting)

As as 31st December 2018 Province	NPA Capital Rs. 000	Specific Provision Rs. 000
Central	483,319	41,225
Eastern	99,105	18,146
North Central	137,753	24,631
North Western	379,861	59,638
Nothern	74,594	13,126
Sabaragamuwa	205,166	20,339
Southern	347,849	52,178
Uva	68,948	7,427
Western	4,330,275	1,458,724
Total	6,126,870	1,695,435

BASEL III PILLAR 3 DISCLOSURES

Gross Loans & Advances - by Sector / Industry

(As per Regulatory Reporting)

As at 31st December 2018	Performing Loans & Advances	Special Mention (NPLs)	Substandard (NPLs)	Doubtful (NPLs)	Loss (NPLs)	Total (NPLs)	Total Loans & Advances
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Agriculture, Forestry & Fishing	11,572,551	439,590	54,956	105,597	193,396	793,540	12,366,091
Arts, Entertainment & Recreation	204,294	-	33	-	84,993	85,026	289,320
Construction & Infrastructure Development	29,946,690	382,398	322,823	138,788	414,803	1,258,812	31,205,502
Consumption	23,060,394	281,615	269,720	79,938	308,989	940,262	24,000,656
Education	599,457	4,388	2,250	1,026	17,463	25,127	624,584
Financial Services	6,625,350	15,136	25,531	31,258	432,645	504,570	7,129,921
Health Care, Social Services & Support Services	362,442	709	-	-	4,331	5,040	367,482
Information Technology and Communication Services	379,695	-	-	316	41,826	42,142	421,837
Manufacturing	11,893,636	251,405	438,220	95,789	307,964	1,093,378	12,987,014
Professional, Scientific & Technical Activities	801,729	70,997	1,236	232	17,917	90,382	892,111
Tourism	2,854,578	103,246	179,715	76,415	88,562	447,938	3,302,516
Transportation & Storage	669,806	3,971	8,227	-	9,441	21,639	691,445
Wholesale & Retail Trade	17,484,682	238,950	136,268	75,891	367,905	819,014	18,303,696
Total Assets	106,455,305	1,792,403	1,438,980	605,251	2,290,236	6,126,870	112,582,175

Gross Loans & Advances - by Geography

(As per Regulatory Reporting)

As at 31st December 2018	Performing Loans & Advances Rs. 000	Special Mention (NPLs) Rs. 000	Substandard (NPLs) Rs. 000	Doubtful (NPLs) Rs. 000	Loss (NPLs) Rs. 000	Total (NPLs) Rs. 000	Total Loans & Advances Rs. 000
Central	9,873,211	183,654	85,938	32,180	181,547	483,319	10,356,530
Eastern	2,247,739	36,682	31,429	9,429	21,564	99,105	2,346,844
North Central	2,864,006	73,039	17,791	8,544	38,380	137,753	3,001,760
North Western	4,781,048	136,458	120,404	8,433	114,565	379,861	5,160,910
Northern	2,033,247	14,341	6,486	10,927	42,840	74,594	2,107,841
Sabaragamuwa	3,305,234	100,655	3,957	11,740	88,814	205,166	3,510,400
Southern	6,152,748	90,460	25,307	106,619	125,463	347,849	6,500,598
Uva	1,725,598	12,327	10,511	26,758	19,352	68,948	1,794,546
Western	73,472,472	1,144,786	1,137,157	390,621	1,657,711	4,330,275	77,802,747
Total	106,455,305	1,792,403	1,438,981	605,250	2,290,236	6,126,870	112,582,175

Further Explanation on the Bank approach to manage credit risk can be found in:

- Graphical presentation of exposures subject to credit risk by major types, geographical areas, sectors and risk rating wise - page 65 of Bank's Annual Report 2018 (Risk Management).
- Maximum Exposures to Credit Risk by asset class - page 205 of Bank's Annual Report 2018.
- Industry Analysis of Financial Assets - pages 208 & 209 of Bank's Annual Report 2018.
- Break down of credit exposures classified by residual maturity - pages 221 to 222 of Bank's Annual Report 2018.
- Breakdown of exposures subject to credit risk in to impaired and non impaired including impairment allowances and the explanation on non impaired and impaired loans - pages 165 to 184 of Bank's Annual Report 2018.

BASEL III PILLAR 3 DISCLOSURES

Reconciliation of Regulatory Capital to Financial Statements

As at 31st December 2018	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Assets	154,026,283	155,613,916	155,296,995	11,838	305,083
Cash and Cash Equivalents (Note 01)	2,214,106	2,214,467	2,214,467	-	-
Balances with Central Bank	6,481,994	6,481,994	6,481,994	-	-
Derivative Financial Instruments	210	210	-	210	-
Financial Assets at FVPL	11,629	11,629	-	11,629	-
Loans and Advances - at Amortised Cost (Note 02)	108,168,861	109,946,575	109,946,575	-	-
Debt and Other Instruments - at Amortised Cost (Note 02)	34,074,558	34,158,389	34,158,389	-	
Financial Assets - FVOCI	6,158	6,158	6,158	-	-
Property, Plant and Equipment	1,934,574	1,934,574	1,934,574	-	-
Intangible Assets	305,083	305,083	-	-	305,083
Deferred Tax Asset (Note 06)	4,931	-	-	-	-
Other Assets (Note 03)	824,179	554,837	554,837	-	-
Liabilities	154,026,283	155,613,916	-	-	-
Due to Banks	1,744,207	1,744,207	-	-	-
Derivative Financial Instruments	114	114	-	-	-
Due to Depositors - at Amortised Cost (Note 04)	118,627,349	118,924,719			
Due to Debt Securities holders - at Amortised Cost	13,295,604	13,349,793	-	-	-
Senior Debentures	2,763,735	2,768,345	-	-	-
Current Tax Liabilities (Note 06)	785,735	866,733	-	-	-
Deferred Tax Liabilities (Note 06)	-	327,636	-	-	-
Other Provisions and Accruals	208,398	207,608	-	-	-
Other Liabilities (Note 05)	2,309,046	2,284,882	-	-	-
Subordinated Debentures	3,045,451	3,045,451	-	-	-
Off-Balance Sheet Liabilities					
Guarantees	2,173,628	2,173,628	2,173,628	-	-
Performance Bonds	800,048	800,048	800,048	-	-
Letters of Credit	868,488	868,488	868,488	-	-
Other Contingent Items	23,498,160	23,498,160	23,498,160	-	-
Undrawn Loan Commitments	16,829,617	16,829,617	16,829,617	-	-
Shareholders' Equity					
Equity Capital - Stated Capital	3,614,253	3,614,253	-	-	-
of which Amount Eligible for CET1	3,614,253	3,614,253	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings (Note 07)	6,557,389	7,410,725	-	-	-
Other Reserves (Note 07)	1,075,001	1,069,449	-	-	-
Total Shareholders' Equity	11,246,643	12,094,428	-	-	-

Reconciliation Notes

Note 01- Cash and Cash Equivalents

The Bank recognises impairment provisions for the balances with foreign banks in accordance with SLFRS 9 - Financial Instruments.

As at 31st December 2018	Rs. 000
Cash and Cash Equivalents Value as per Published Financial Statements (SLFRSs)	2,214,106
Cash and Cash Equivalents Value as per Regulatory Reporting	2,214,467
Change in Value	(361)

Note 02- Financial Assets at Amortised Cost

(i) Loans and Advances

As at 31st December 2018	Rs. 000
Loans and Advances	
Carrying Value as per Published Financial Statements (SLFRSs)	108,168,861
Carrying Value as per Regulatory Reporting	109,946,575
Change in Value (a) +(b)	(1,777,714)

(a) Loan Loss Provisioning

The Bank recognises impairment provisions for loans and advances in accordance with SLFRS 9 - Financial Instruments, whereas provisions of the Banking Act directions for Classification of Loans and Advances, income recognition and provisioning are used for regulatory reporting purposes.

As at 31st December 2018	Rs. 000
Loan Loss Provisions as per Published Financial Statements (SLFRSs)	5,325,563
Corresponding Provisions as per Regulatory Reporting	3,875,989
Change in Value	(1,449,573)

(b) Fair Value Adjustment on Staff Loans at Concessionary Rates

SLFRSs require staff loans granted at concessionary rates to be measured at market interest rates to ascertain the fair value. The difference adjusted to the carrying amount of staff loans.

As at 31st December 2018	Rs. 000
Staff Loans as per Published Financial Statements (SLFRSs)	847,265
Staff Loans as per Regulatory Reporting	1,175,406
Change in Value	(328,140)

(ii) Debt and Other Instruments

The Bank recognises impairment provisions for the investments in Debt & other Instruments in accordance with SLFRS9 - Financial Instruments. In accordance with the Standard, impairment provision has been charged for the investments in Debentures and Sri Lanka Development Bonds.

As at 31st December 2018	Rs. 000
Debt and Other Instruments	
Carrying Value as per Published Financial Statements (SLFRSs)	34,074,558
Carrying Value as per Regulatory Reporting	34,158,389
Change in Value	(83,832)

BASEL III PILLAR 3 DISCLOSURES

Note 03 - Other Assets

(a) Fair Value Adjustment on Staff Loans at Concessionary Rates

SLFRSs require staff loans granted at concessionary rates to be measured at fair value, based on the market interest rates prevailed at the time of granting the loan. The difference of Rs.328.14 million has recognised as a prepaid employee benefit and charged to income statement under 'personnel expenses', while interest income is accrued at the relevant market rates over the period of the loan.

(b) Unamortised Issuance Cost of Debt Securities

The unamortised issuance cost of the debt securities of Rs. 58.80 million has been netted off with the corresponding financial liabilities in the Published Financial statements, where as in the regulatory reporting this has been presented under other assets.

As at 31st December 2018	Rs. 000
Other Assets as per Published Financial Statements (SLFRSs)	824,179
Other Assets as per Regulatory Reporting	554,837
Change in Value (a) +(b)	269,342

Note 04 - Financial Liabilities at Amortised Cost

Due to Depositors

The Bank accrues interest expenses on longer maturity deposits at effective interest rates in the published financial statements whereas interest accrual in regulatory financial statements takes place on straight line basis.

As at 31st December 2018	Rs. 000
Due to Depositors as per Published Financial Statements (SLFRSs)	118,627,349
Due to Depositors as per Regulatory Reporting	118,924,719
Change in Value	(297,371)

Note 05 - Other Liabilities

Expected Credit Loss (ECL) adjustment on financial guarantees & documentary credit, issuing fee & commission income elimination adjustments relating to remaining contract periods on financial guarantees and documentary credit and the impact of other taxes and levies on financial services and crop insurance levy caused below difference.

As at 31st December 2018	Rs. 000
Other Liabilities as per Published Financial Statements (SLFRSs)	2,309,046
Other Liabilities as per Regulatory Reporting	2,284,882
Change in Value	24,164

Note 06 - Current and Deferred Tax Liabilities/Assets

Current tax & Deferred tax liabilities have been re-stated with the above adjustments done in the published financial statements.

Note 07 - Shareholders Equity

Share holder funds have been re-stated with the above adjustments done in the published financial statements.

Valuation Methodologies

A marked to market (MTM) valuation is performed mainly on assets prone for volatility. This applies mainly to the Held for Trading (HFT) portfolio since it is the portfolio most prone to market volatility & the same is maintained to benefit from market volatilities.

One such asset class is the Treasury bill and Treasury bond portfolio. Since these are government issued instruments that are risk free and have a very active secondary market. These instruments have two valuation methodologies which are Effective Interest Rate (EIR) method and straight line. However as regulated by the Central Bank of Sri Lanka, Banks are allowed only to report to the regulator using the EIR method & the same is adopted by the Bank for the calculation of the MTM. MTM of the portfolios are performed on a daily basis by Treasury Middle Office (TMO) and for the same the rates are obtained from Public Debt Department of Central Bank of Sri Lanka. As a prudent measure, the Bank has enforced internal limits on stop losses.

Another asset class that MTM is performed is the equity trading portfolio of the Bank. The Bank do not trade heavily in the equity portfolio since the capital loss of the investment is of great concern to the Bank. Therefore equity valuations are performed on monthly basis using the prices as appearing in the monthly publications of the Colombo Stock Exchange (CSE).

The trading unit trust portfolios valuation is similar to the equity calculation methodology and the frequency of valuation. However since most of the unit trust instruments are not traded in an exchange, the net asset value or the market value is obtained through the relevant unit trust fund manager.

The foreign exchange position which should be within the limit as dictated by the regulator is valued in terms of Sri Lankan rupees on a daily basis by using exchange rates prevailing at the end of the day. Spot revaluation rates are mainly obtained from brokers.

Independent price verifications are done from different entities mainly from money brokers. For forex spot rates, the Treasury Middle Office contacts a minimum of three brokers and their averages are used. For cross currency transactions, Bloomberg rates are used twice a day. Treasury Bills and Treasury Bonds rates are obtained from Public Debt Department published information and a random sanity check is performed against broker rates.

Market Risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. It is managed under the market risk policies and processes to obtain the best balances of risk and return whilst meeting customer requirements.

The market risk subject to the capital charge requirements are:

- The Risk pertaining to Interest rate related instruments in the trading portfolios
- The Risk pertaining to the equities in the trading portfolios
- The Risk pertaining to the foreign exchange position.

The Bank follows the 'Standardised Measurement Method' for computing the capital charge for exposures capture under market risk.

Below table shows the RWA for market risk under Standardised Approach method:

Market Risk under Standardised Measurement Method

As at 31st December 2018	RWA Amount Rs. 000
(a) RWA for Interest Rate Risk	-
General Interest Rate Risk	-
(i) Net Long or Short Position	-
(ii) Horizontal Disallowance	-
(iii) Vertical Disallowance	-
(iv) Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	2,297
(i) General Equity Risk	1,381
(ii) Specific Equity Risk	916
(c) RWA for Foreign Exchange & Gold	3,816
Risk Weighted Amount for Market Risk ((a+b+c) * The Reciprocal of Total Capital Ratio)	51,471

BASEL III PILLAR 3 DISCLOSURES

Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustments/movements within a specified period. The Bank's lending, funding and investment activities give rise to interest rate risk. The Bank prepares Sensitivity of Assets & Liabilities (SAL) gap analysis report by contractual and behavioural maturities as broken by tenors up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years that covers both on and off-balance sheet interest rate sensitive assets and liabilities by currency-wise (according to CBSL guidelines) on a monthly basis.

Further explanation on the Bank approach to manage interest rate risk can be found in pages 215 to 217 of Annual Report 2018- Interest Rate Sensitivity Analysis of the Assets & Liabilities.

Equity Position Risk

Equity Price Risk is the risk to earnings or capital that results from adverse changes in the value of equity related portfolios of a financial institution.

Investment in equities is always classified under 'Trading' portfolio and is marked to market on a monthly basis. The net MTM adjustment (decline or appreciation of market value) of the portfolio is to be taken to the Profit and Loss account (reflected in earnings).

The below table depicts the equity type, cost, carrying value, fair value, realised/unrealised gains/(losses) of equity investments as at 31st December 2018.

Investee	Type	Purchased Price Rs.	No. of Shares Purchased	Cost Rs.	Carrying Value Rs.	Share Price Rs.	Realised Gains/ (Losses) Rs.	Unrealised Gains/ (Losses) Rs.
Vallibel One PLC	Held for Trading	25.00	684,035	17,100,875	11,628,595	17.00	-	(5,472,280)

Amount included in the capital adequacy calculation is as follows:

	No. of Shares	Share Price Rs.	Total Market Value of Shares Rs.	Capital Charge Rs.
Specific Equity Risk (7.875% charge)	684,035	17.00	11,628,595	915,752
General Equity Risk (11.875% charge)	684,035	17.00	11,628,595	1,380,896
Total Capital Charge				2,296,648

Foreign Exchange Risk

The Bank faces foreign exchange risk due to impact on foreign currency inflow and outflow on daily basis. However, currency risk that can be carried through overnight is contained by the regulator through Net Open Position (NOP) limit. With the developments in emerging markets and increasing demand for US Dollar from importers, the Sri Lankan Rupee is further set to depreciate in the long term. The Bank generally manages this risk by using a derivative type called 'currency swaps'.

Liquidity Risk

The ability for a Bank to meet its short term liability requirements primarily to honour the premature upliftments and general maturities is defined as the liquidity risk. The Statutory Liquidity Asset Ratio & Liquidity Coverage Ratio are the primary ratio gauges as imposed by the regulator in to the liquidity position of the Bank while other ratios such as the liquid assets to short term liabilities, commitments to liquid assets can be used to monitor the same.

	2018	2017
Trends in Key Indicators		
Net Loans to Total Assets	70.23%	71.29%
Loans to Customer Deposits	98.08%	95.42%
Liquid Assets to Short-term Liabilities - (Times)	7.04	6.56
Commitments to Liquid Assets	54.41%	51.83%

Another main measurement tool available for monitoring the liquidity of the Bank is the maturity gaps of assets and liabilities (MAL) which is prepared based on contractual and behavioural maturities bucket which are defined for up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years which covers both on and off-balance sheet assets and liabilities.

Further explanation on the Bank approach to manage liquidity risk can be found pages 210 to 214 of Annual Report 2018- Contractual maturities of on & off balance sheet assets & liabilities.

Liquidity Risk Mitigation Techniques

The Bank has a contingency funding plan inter alia the roles and responsibilities of senior management in a crisis situation, triggers for invoking the plan, communications and organisation, an analysis of a realistic range of market-wide and specific liquidity stress tests to the extent to which each stress test can be mitigated by managing the balance sheet. This is detailed in the Bank's Treasury Procedure Manual. In addition, the Bank has entered in to a reciprocal contingency funding arrangement with another licensed commercial bank for an amount of Rs.1.5 Billion.

Assessing the structure of the Balance Sheet

The main measurement tool the Bank uses to assess the structure of the balance sheet is Ratio Analysis. Comprehensive list of ratios according to the focus areas are as follows,

Growth Ratios:
Average Customer Assets growth, Average Liabilities growth, Average Low Cost Customer Deposit Growth

Other Ratios:
Loans to Deposit Ratio, Earning Assets/ Total Assets, NPA Ratio - Gross and Net NPA Ratio, Net Loans to Total Assets etc.

Concentration limits, Sources of Funding & Liquidity Exposures

The Bank on a monthly basis uses top 20 deposit holders concentration which is discussed at ALCO.

In order to manage the concentration risk the Bank has implemented various limits and restrictions on its funding portfolio. One such limitation is on the borrowing from the money market and currency wise (mainly USD & Sri Lankan Rupee) Board approved limits are in place and are reviewed in minimum annually and ensure the concentration risk arising from the same is mitigated according to the risk appetite of the Bank.

By analysing the past trends, it has been deduced that the Bank relies mainly on the time deposits in order to fund the business growth as evident in the below table where the product wise concentration of the liability portfolio is listed.

Product wise concentration of the Bank's Deposit Portfolio as at 31st December 2018;

Deposit Product	Mix
Demand Deposits	4%
Savings Deposits	12%
Time Deposits	80%
Certificate of Deposits	4%
Margin Deposits	0%
	100%

The top 20 deposit holders of the Bank has a share of 14.77% out of the total deposit base of the Bank as at the year end.

BASEL III PILLAR 3 DISCLOSURES

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) ensures Banks maintaining sufficient unencumbered High Quality Liquid Assets (HQLA) to survive a significant liquidity stress scenario over 30 days horizon. The Central Bank of Sri Lanka issued Banking Act Direction No. 01 of 2015 on "Liquidity Coverage Ratio under Basel III Liquidity Standards for Licensed Commercial Banks" on 31st March 2015.

Commencing from 1st April 2015, the Bank has to maintain LCR Ratio for all currencies and for rupee as stipulated in the direction. The ratio which initially starts from 60% minimum requirement will be increased up to 100% on a staggered basis by 1st January 2019.

Liquid assets are distributed across the Bank to support regulatory and internal requirements and are consistent with the distribution of liquidity needs by currency. The composition of the high quality liquid asset portfolio has remained relatively stable over the reporting period and the previous period. The Bank has to maintain 90% as LCR for year 2018 for both Rupee and all currencies.

LCR Disclosure Template

The Bank monitors its LCR position on a daily basis, ensuring a sufficient buffer is maintained over the minimum regulatory requirement and the Bank's risk appetite. The Bank holds a diverse mix of High Quality Liquid Assets (HQLA), consisting primarily of cash, excess balances held with Central Bank above Statutory Deposit, Government of Sri Lanka securities (Level 1 Liquid Assets). In addition, the Bank maintains level 2 Liquid Assets such as gilt edge investments.

As at 31st December (All Currency)	2018		2017	
	Total Un-weighted Value Rs. 000	Total Weighted Value Rs. 000	Total Un-weighted Value Rs. 000	Total Weighted Value Rs. 000
Total Stock of High-Quality Liquid Assets (HQLA)	19,562,913	19,235,760	15,835,839	15,213,466
Total Adjusted Level 1 Assets	18,878,000	18,878,000	14,995,400	14,995,400
Level 1 Assets	18,893,304	18,893,304	14,793,246	14,793,246
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	684,913	342,456	840,440	420,220
Level 2B Assets	684,913	342,456	840,440	420,220
Total Cash Outflows	148,465,439	29,718,169	130,405,067	20,097,489
Deposits	97,383,964	8,243,853	97,713,844	8,680,160
Unsecured Wholesale Funding	18,516,396	9,548,582	7,158,664	4,360,842
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	20,700,844	61,499	18,676,454	200,382
Additional Requirements	11,864,235	11,864,235	6,856,105	6,856,105
Total Cash Inflows	20,069,947	15,628,348	14,802,163	12,310,242
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	7,615,787	3,994,423	7,929,910	5,437,988
Operational Deposits	820,235	-	-	-
Other Cash Inflows	11,633,925	11,633,925	6,872,253	6,872,253
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total net Cash Outflows over the Next 30 Calendar Days) *100		136.52%		195.36%

Operational Risk

Operational risk is the potential for loss arising from the failure of people, processes or technology or the impact of external events. Operational risk exposures are managed through a set of processes that drive risk identification, assessment, control and monitoring. The senior management team under the guidance of the Board is responsible for overseeing potential risk across the Bank.

The Bank computes capital charges for operational risk based on the Basic Indicator Approach (BIA). When compared to other approaches, BIA is not an advanced approach. Therefore, the Bank is in the process of collecting information to move to 'The Standardised Approach (TSA)' with the prior approval of CBSL.

Capital Requirement under BIA is given below;

Operational Risk under Basic Indicator Approach

As at 31st December 2018 Business Lines	Capital Charge Factor	Fixed Factor	Gross Income 1st Year Rs. 000	Gross Income 2nd Year Rs. 000	Gross Income 3rd Year Rs. 000
The Basic Indicator Approach	15%	-	8,924,518	6,678,599	6,342,127
The Standardised Approach					
Corporate Finance	18%	-	-	-	-
Trading and Sales	18%	-	-	-	-
Payment and Settlement	18%	-	-	-	-
Agency Services	15%	-	-	-	-
Asset Management	12%	-	-	-	-
Retail Brokerage	12%	-	-	-	-
Retail Banking	12%	-	-	-	-
Commercial Banking	15%	-	-	-	-
The Alternative Standardised Approach					
Corporate Finance	18%	-	-	-	-
Trading and Sales	18%	-	-	-	-
Payment and Settlement	18%	-	-	-	-
Agency Services	15%	-	-	-	-
Asset Management	12%	-	-	-	-
Retail Brokerage	12%	-	-	-	-
Retail Banking	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-
Capital Charges for Operational Risk					
The Basic Indicator Approach					1,097,262
Risk Weighted Amount for Operational Risk					
The Basic Indicator Approach					9,240,103

BASEL III PILLAR 3 DISCLOSURES

Operational Risk Mitigation Techniques

The Bank's senior management team under delegation from the Board is responsible for overseeing operational risks across the Bank. The Bank has a process in place to record operational risk related loss incidents. Reporting, investigating and required remedial actions on the incidents are recommended by Manager - Operational Risk and Control Self Assessments along with Key risk Indicators have been developed for all critical business units to trigger periodic control self assessments as required and to capture results to monitor exceptions. The Bank has established mechanisms in controlling, preventing, and mitigating operational risks through an effective internal control system with strong participation of each business unit heads. Each business unit must enforce operational controls vigorously, ensuring compliance with regulations including anti-money laundering measures. Implementing segregation of duties and procedures for verification and reconciliation, define approval authorities as well as establishing limits commensurate with the scale of the business, the business type and level of staff, are also been looked after by them. The reliability of the information technology systems and the security measures related thereto is also of paramount importance.

The Bank has implemented Business Continuity Management to enhance the resilience and the capability of responding to unexpected interruptions. The Bank has Business Continuity Management Policy and Business Continuity Plans, which are regularly reviewed and updated in accordance with potential threats and being tested on a regular basis. Disaster Management Team (DMT) which comprise with members of all critical business operations is overlooking to ensure the readiness of the Bank's Disaster Recovery site and the related testing.

As a part of the risk management approach the Bank uses insurance as a 'risk transferring strategy' for low probability and high severity impact events that are beyond the control of the Bank such as damage to physical assets by natural disasters, fire etc. The Bank has also transferred such Risk by obtaining necessary insurance policies from leading insurance providers covering burglary, transits, forged cheques and securities, counterfeit currencies, infidelity and negligence of employees etc. The adequacy of the insurance covers are reviewed and monitored by relevant departments in the Bank on an ongoing basis.

Major operational, system or human failures and financial losses incurred by the Bank due to such failures during the reporting period

During the reporting period there were no significant losses reported due to failures or inadequacies in Internal Processes, People, and System or from External events.

Further details on the Bank's approach to manage operational risk can be found on page 218 of the Annual Report 2018 - Risk Management Report.

Details of Outsourced Activities

The Bank outsources certain service activities related to the financial services and core banking activities. With the outsourcing, the Bank would be in a better position to meet the challenges of rapid changes and innovations in technology, increasing specialisation in the market, cost control of operations by minimising costs of directly handling such activities, and effectively compete in the market. The outsourcing activities are governed by the laws applicable to the Banking industry and directions issued by the regulator. Further, the Bank has a well defined policy aligned with regulatory guidelines and procedures relating to outsourcing of business activities of the Bank ensuring that all significant risks arising from outsourcing arrangements of the Bank are identified and effectively managed on a continuous basis. The Outsourcing Policy is reviewed on an annual basis with the approval of the Board of Directors.

An Outsourced Activities Monitoring Unit has been established to closely monitor all the outsourcing arrangements in the Bank.

List of Outsourced Activities outsourced are as follows;

Deliverables/ Services	Basis of the Payment
Cards Personalisation	Per Card
Credit Card Mandate Scanning	Per Document
World Master Card Personalisation	Per Card
Statement printing and dispatching	Per Statement
Debt collection, Skip tracing & Asset verification	Based on the output volumes
Mandates relating to accounts opening to be scanned	Per Document
All cash sorting and transport	Transport - Per agreed rate according to the distance & Counting - Per bundle
Cheque book printing	Per Cheque leaf
Archival of Documents	Per Carton
Computer Hardware and equipment	Monthly rental
Maintenance of Bank Disaster Recovery Site	Monthly Rental
Hiring IT Operators	Monthly Fee
Processing of Salaries	Monthly Fee
Promotional Activities	Per Activity
Recruitment and Processing payments for outsourced staff	Percentage on Total Salary Cost
Initial screening of applications for Credit Card and Personal Loans	Per Application
Card Management System	Per Card

Details of the due diligence test of third party service providers

Due diligence tests of outsourced vendors are carried out by respective Risk Owners prior to executing new agreements and renewal of existing agreements. Assistance of Information Security Officer and Information Systems Audit Unit is obtained when conducting due diligence tests of outsourced parties which provide IT services.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB arises due to floating and fixed rate sensitive assets and liabilities in the balance sheet of the Bank. It is different to credit risk and relates to the impact interest rates change may have on the value of the loans and deposits and by extension, the overall earnings of the Bank. IRRBB arises due to the differences in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL), which will have an impact on the future income and expenses produced by relevant gap positions and an impact on Bank's Net Interest Income compared to the level of Net Interest Income expected from current interest rates level. Re-pricing gap analysis would determine the appropriate strategies to manage the assets- liability rate mismatch.

Further explanation on the Bank approach to manage interest rate risk can be found in pages 215 to 217 of Annual Report 2018 - Interest Rate Sensitivity analysis of the Assets & Liabilities.

QUARTERLY STATISTICS

For the Quarter ended	2018				2017			
	31st December Rs. 000	30th September Rs. 000	30th June Rs. 000	31st March Rs. 000	31st December Rs. 000	30th September Rs. 000	30th June Rs. 000	31st March Rs. 000
Extract of Statement of Financial Position								
Total Assets	154,026,283	156,377,825	150,174,847	146,661,678	138,501,685	127,049,094	128,100,380	129,121,056
Loans and Advances	108,168,861	111,231,926	108,177,520	104,888,718	98,743,816	88,909,845	87,169,337	86,627,661
Due to Depositors	118,627,349	116,278,018	114,241,574	112,541,291	107,193,030	95,634,252	98,090,605	93,752,648
Debentures	5,809,186	5,900,746	7,238,619	7,114,489	7,147,052	7,205,159	7,239,756	7,109,535
Shareholders' Funds	11,246,644	11,750,128	11,489,457	10,982,700	10,669,887	10,396,367	9,554,232	9,290,785
Extract of Statement of Comprehensive Income								
Net Interest Income	1,805,936	1,891,466	1,484,764	1,336,129	1,035,206	1,289,383	1,172,750	1,208,934
Other Income	549,965	644,121	565,321	648,922	521,233	476,054	489,301	485,738
Total Operating Income	2,355,901	2,535,587	2,050,085	1,985,051	1,556,439	1,765,437	1,662,051	1,694,672
Impairment charges on Financial Assets	(485,447)	(862,850)	(348,612)	(320,238)	74,071	(225,899)	(232,405)	(110,153)
Non-Interest Expenses	(1,285,649)	(1,251,153)	(1,296,183)	(1,166,835)	(1,138,613)	(1,108,243)	(990,301)	(1,071,600)
Income Tax Expense	(123,405)	(160,911)	101,466	(185,164)	(19,482)	(130,012)	(175,894)	(159,566)
Profit for the Quarter	461,400	260,673	506,756	312,814	472,415	301,283	263,451	353,353
Profitability(YTD) Ratios								
Net Interest Margin (%)	4.37	4.01	3.92	3.80	3.61	3.81	3.73	3.79
Earnings Per Share (Rs.)	3.48	3.26	3.73	2.87	3.31	2.91	2.96	3.41
Return on Equity (%)	13.73	12.87	14.96	11.72	14.86	13.55	14.51	18.95
Return on Assets (%)	1.03	0.98	1.14	0.89	1.07	0.95	0.97	1.11
Capital Adequacy Ratios*								
Common Equity Tier I Capital Ratio (%)	11.51	10.65	11.20	10.66	11.38	10.56	N/A	N/A
Total Tier I Capital Ratio (%)	11.51	10.65	11.20	10.66	11.38	10.56	10.79	11.07
Total Capital Ratio (%)	13.32	12.11	12.87	12.53	13.53	13.10	13.30	13.83
Asset Quality Ratios								
Gross NPA (%)	5.44	4.83	4.51	4.40	4.36	6.03	6.26	5.63
Net NPA (%)	3.08	3.14	2.93	2.89	3.05	3.80	4.21	3.78
Liquidity Ratios								
Statutory Liquid Assets Ratio (SLAR)								
Domestic Banking Unit (%)	29.17	25.95	24.68	23.25	23.25	22.65	22.59	29.70
Foreign Currency Banking Unit (%)	20.09	20.81	20.60	23.44	27.04	21.09	20.15	37.96
Liquidity Coverage Ratio (LCR)								
Rupee (%)	166.08	141.06	168.98	159.04	208.84	135.67	150.01	146.60
All Currency (%)	136.52	122.14	150.67	139.54	195.36	133.04	213.28	211.35

* The Central Bank of Sri Lanka has issued Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's) on 29th December 2016. Accordingly from July 2017 onwards,the Bank has reported Capital Adequacy Ratios as per Basel III framework and for the previous periods, Capital Ratios have been reported as per Basel II framework.

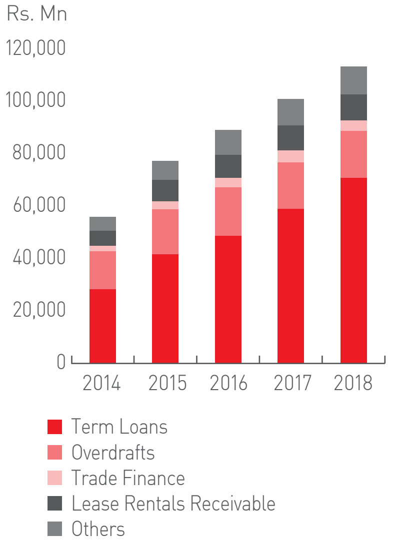
Note: Financial data of previous years have been re-classified / re-stated to conform with SLFRS 9 requirements.

ANALYSIS OF LOANS & ADVANCES

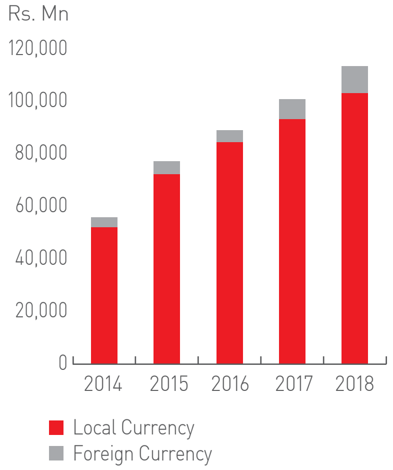
	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000	2014 Rs.000
By Product					
Term Loans	70,870,588	59,136,152	48,822,782	41,764,064	28,391,517
Overdrafts	17,936,818	17,703,444	18,446,880	17,101,701	14,418,732
Trade Finance	4,036,976	4,546,528	3,462,955	2,911,459	1,991,724
Lease Rentals Receivable	9,804,133	9,449,637	8,792,506	8,320,679	5,767,026
Others	10,845,909	10,119,619	9,649,053	7,182,426	5,351,890
Total	113,494,424	100,955,380	89,174,176	77,280,329	55,920,889
By Currency					
Sri Lankan Rupee	103,345,693	93,485,484	84,633,541	72,331,247	52,091,358
United States Dollar	3,917,082	3,424,961	2,727,977	3,431,029	3,711,103
Others	6,231,649	4,044,935	1,812,658	1,518,053	118,428
Total	113,494,424	100,955,380	89,174,176	77,280,329	55,920,889

Note: Financial data of previous years have been re-classified / re-stated to conform with SLFRS 9 requirements.

By Product



By Currency

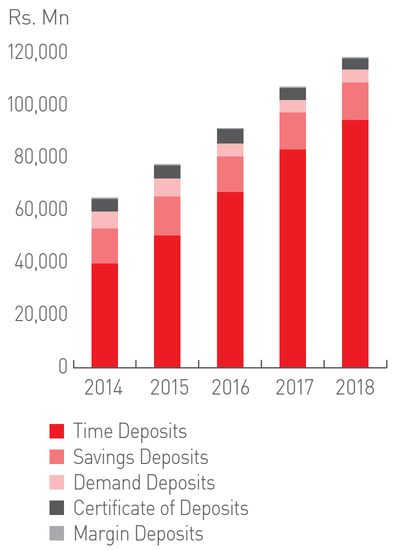


ANALYSIS OF DUE TO DEPOSITORS

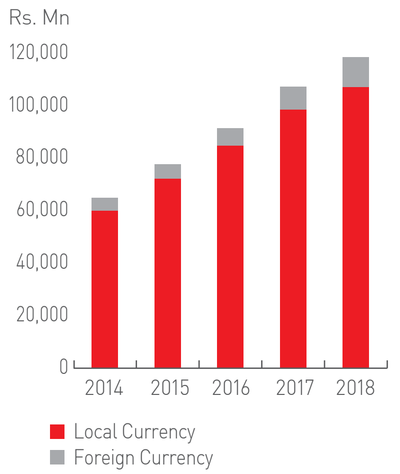
	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000	2014 Rs.000
By Product					
Demand Deposits	4,871,475	4,815,485	5,141,991	6,881,532	6,456,819
Savings Deposits	14,404,715	14,159,616	13,452,803	14,880,794	13,360,712
Time Deposits	94,475,049	83,200,483	67,047,837	50,480,498	39,743,568
Certificate of Deposits	4,359,723	4,603,819	5,488,402	4,887,367	4,820,760
Margin Deposits	516,387	413,627	325,377	566,864	513,366
Total	118,627,349	107,193,030	91,456,410	77,697,055	64,895,225
By Currency					
Sri Lankan Rupee	107,090,457	98,574,959	84,851,489	72,192,571	59,943,968
United States Dollar	9,369,827	6,730,046	5,191,710	4,528,541	4,069,126
Others	2,167,065	1,888,025	1,413,211	975,943	882,131
Total	118,627,349	107,193,030	91,456,410	77,697,055	64,895,225

Note: Financial data of previous years have been re-classified / re-stated to conform with SLFRS 9 requirements.

By Product



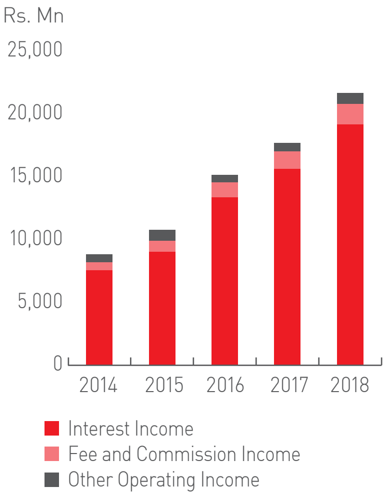
By Currency



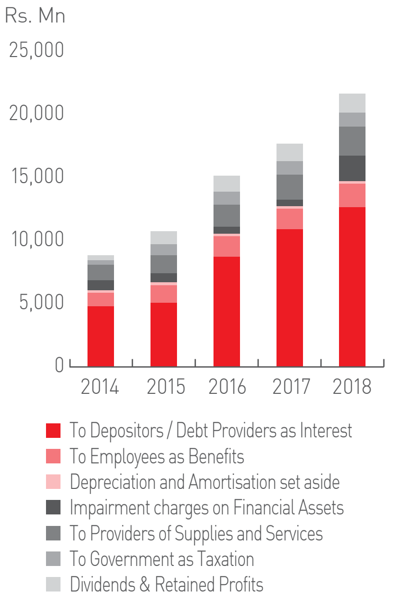
SOURCES & DISTRIBUTION OF INCOME

	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000	2014 Rs.000
Sources of Income					
Interest Income	19,157,136	15,616,014	13,366,543	9,038,971	7,541,725
Fee and Commission Income	1,626,410	1,408,276	1,175,173	863,025	643,869
Trading and Other Operating Income	888,648	660,382	603,026	857,142	658,362
Total	21,672,194	17,684,672	15,144,742	10,759,138	8,843,956
Distribution of Income					
To Depositors and Debt Providers as Interest	12,638,841	10,909,740	8,733,164	5,076,382	4,801,741
To Employees as Benefits	1,863,074	1,624,035	1,613,604	1,389,142	1,080,881
Depreciation and Amortisation set aside	193,811	213,491	225,283	222,135	178,843
Impairment charges on Financial Assets	2,017,147	494,386	528,108	750,525	814,854
To Providers of Supplies and Services	2,343,093	1,977,041	1,753,738	1,416,953	1,213,128
To Government as Taxation	1,074,585	1,075,477	1,039,140	863,483	339,298
Income Tax (Including Deferred Tax)	368,014	484,954	543,231	491,102	118,998
VAT and NBT on Financial Services and DRL	690,999	576,478	483,265	361,871	216,075
Crop Insurance Levy	15,572	14,045	12,644	10,510	4,225
To Shareholders as Dividends & Retained Profits	1,541,643	1,390,502	1,251,705	1,040,518	415,211
Total	21,672,194	17,684,672	15,144,742	10,759,138	8,843,956

Source of Income



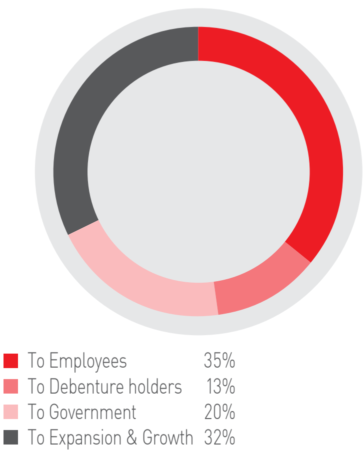
Distribution of Income



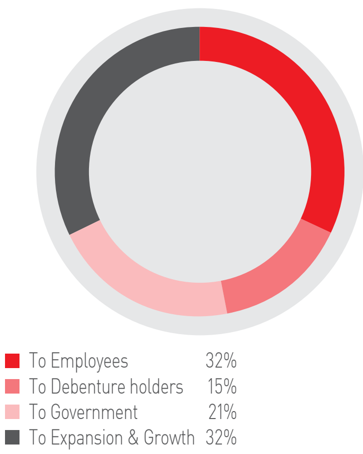
VALUE ADDED STATEMENT

	2018		2017	
	Rs.000	%	Rs.000	%
Value Added				
Income from Banking Services	21,672,194		17,684,672	
Cost of Funds and Services	(14,313,676)		(12,147,206)	
Value Added by Banking Services	7,358,518		5,537,466	
Impairment Charges on Financial Assets	(2,017,147)		(494,386)	
Total	5,341,371		5,043,080	
Distribution of Value Added				
To Employees				
Salaries and Other Benefits	1,863,074	35%	1,624,035	32%
To Debenture holders				
Interest to Debenture holders	668,258	13%	739,575	15%
To Government				
Income Tax (Including Deferred Tax)	368,014		484,954	
VAT and NBT on Financial Services and DRL	690,999		576,478	
Crop Insurance levy	15,572		14,045	
	1,074,585	20%	1,075,477	21%
To Expansion and Growth				
Retained Profit	1,541,643		1,390,502	
Depreciation and Amortisation	193,811		213,491	
	1,735,454	32%	1,603,993	32%
Total	5,341,371	100%	5,043,080	100%

Distribution of Value Added - 2018



Distribution of Value Added - 2017



DECADE AT A GLANCE

Rs. Mn										
For the Year ended 31st December	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Operating Results										
Income	3,862.06	3,484.41	5,278.21	7,766.22	9,054.03	8,843.95	10,759.14	15,144.75	17,684.67	21,672.19
Interest Income	3,159.66	3,027.66	4,582.66	6,766.83	7,976.95	7,541.72	9,038.97	13,366.55	15,616.01	19,157.13
Interest Expense	1,878.01	1,402.26	2,268.62	4,360.68	5,881.65	4,801.74	5,076.38	8,733.16	10,909.74	12,638.84
Net Interest Income	1,281.65	1,625.40	2,314.04	2,406.15	2,095.30	2,739.98	3,962.59	4,633.39	4,706.27	6,518.29
Other Income	702.40	456.75	695.55	999.39	1,077.08	1,302.23	1,720.17	1,778.20	2,068.66	2,515.06
Operating Expenses & Provisions	1,318.90	1,388.22	1,855.62	2,260.13	3,049.63	3,508.00	4,151.14	4,616.65	4,899.48	7,123.70
Profit before Income Tax	665.15	693.93	1,153.97	1,145.41	122.75	534.21	1,531.62	1,794.94	1,875.45	1,909.65
Income tax	277.33	332.14	342.20	285.36	8.91	119.00	491.10	543.23	484.95	368.01
Profit for the Year	387.82	361.79	811.77	860.05	113.84	415.21	1,040.52	1,251.71	1,390.50	1,541.64
As at 31st December										
Assets										
Cash and Cash Equivalents	588.33	1,110.07	2,430.15	1,203.05	1,203.74	1,334.41	1,393.27	1,703.45	1,665.04	2,214.11
Balances with Central Bank of Sri Lanka	807.21	1,060.32	2,250.43	3,516.87	2,799.58	3,247.64	4,166.74	6,218.56	6,884.02	6,481.99
Placements with Banks	96.81	-	-	500.13	104.62	-	-	75.10	237.37	-
Derivative Financial Instruments	-	1.14	1.51	0.05	2.76	5.21	1.54	26.28	16.09	0.21
Financial Assets at FVPL	3,829.34	3,432.63	190.98	12.38	9,170.42	1,414.70	14.71	629.74	4,549.19	11.63
Loans and Advances	12,693.80	20,677.56	33,898.00	42,031.80	41,561.53	52,974.81	75,143.20	86,498.15	98,743.82	108,168.86
Debt and Other Instruments	2,270.81	3,324.94	5,982.27	6,077.62	6,028.64	17,532.44	24,654.44	31,843.17	23,336.40	34,074.56
Financial Assets at FVOCI	2.14	2.14	2.14	6.16	6.16	6.16	6.16	6.16	6.16	6.16
Property, Plant and Equipment	595.56	614.65	1,026.34	1,224.24	1,204.30	1,458.55	1,470.35	1,489.39	1,989.97	1,934.57
Intangible Assets	36.13	48.67	52.15	73.58	65.80	50.61	329.13	315.70	284.39	305.08
Deferred Tax Assets	-	-	-	-	-	-	-	-	-	4.93
Other Assets	638.70	969.62	1,164.92	1,428.41	2,770.90	1,580.74	603.43	645.38	789.24	824.18
Total Assets	21,558.83	31,241.74	46,998.89	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69	154,026.28
Liabilities										
Due to Banks & Debt Securities Issued	1,326.78	4,470.46	4,916.09	1,121.65	4,743.51	4,294.47	14,612.56	21,001.34	10,963.69	15,039.81
Derivative Financial Instruments	-	3.23	1.26	0.63	24.63	-	2.14	-	7.37	0.11
Due to Depositors	16,914.26	21,951.82	36,353.39	47,911.09	53,835.90	64,895.23	77,697.05	91,456.41	107,193.03	118,627.35
Current Tax Liabilities	245.56	262.37	227.90	151.31	-	-	114.94	411.03	550.34	785.74
Deferred Tax Liabilities	10.53	83.49	121.69	177.13	150.79	281.98	391.74	445.77	630.73	-
Other Liabilities and Provisions	1,032.04	1,552.03	1,697.87	1,694.06	1,330.16	1,564.01	1,276.69	1,314.21	1,339.59	2,517.44
Debentures	50.00	50.00	-	785.83	784.69	3,834.95	7,914.58	7,950.17	7,147.05	5,809.19
Total Liabilities	19,579.17	28,373.40	43,318.20	51,841.70	60,869.68	74,870.64	102,009.70	122,578.93	127,831.80	142,779.64
Shareholders' Funds										
Stated Capital	1,106.40	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	3,614.25	3,614.25
Reserves	873.26	1,319.37	2,131.72	2,683.62	2,499.80	3,185.66	4,224.30	5,323.18	7,055.64	7,632.39
Total Shareholders' Funds	1,979.66	2,868.34	3,680.69	4,232.59	4,048.77	4,734.63	5,773.27	6,872.15	10,669.89	11,246.64
Total Liabilities and Shareholders' Funds	21,558.83	31,241.74	46,998.89	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69	154,026.28
Commitments and Contingencies	3,151.96	10,887.66	15,331.43	13,743.92	26,124.67	22,200.09	26,223.21	25,458.17	32,426.39	44,169.94
Share Information										
Earnings per Share (Rs.)	1.61	1.31	2.75	2.92	0.39	1.41	3.53	4.01	3.31	3.48
Net Assets Value per Share (Rs.)	4.47	6.48	8.32	9.56	9.15	10.70	13.05	15.53	24.11	25.41
Other Information										
No of Employees	511	670	1,096	1,153	1,169	1,302	1,420	1,458	1,472	1,497
No of Branches	35	41	64	73	77	78	79	82	85	85

Notes

1. Net Assets Value per Share has been calculated, for all periods, based on the number of shares in issue as at 31st December 2018
2. Financial data of previous years have been re-classified / re-stated to conform with SLFRS 9 requirements.

INVESTOR RELATIONS

Compliance Report on the Contents of Annual Report in terms of the Listing Rules of the Colombo Stock Exchange

The table below summarises the Bank's degree of compliance with the Listing Rules issued by Colombo Stock Exchange;

Rule No.	Disclosure Requirements	Section Reference	Page/s
7.6 (i)	Names of persons who during the financial year were Directors of the Entity	Annual Report of Board of Directors on the Affairs of the Bank	114
7.6 (ii)	Principal activities of the entity during the year and any changes therein	Notes to the Financial Statements (Note 1 - Corporate Information)	134
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Item 02 of the Investor Relations	265
7.6 (iv)	Public Holding information and Market capitalisation • The Public Holding percentage and Number of Shares Held by Public • Market capitalisation	 Item 02 of the Investor Relations Item 10 of the Investor Relations	 265 269
7.6 (v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of financial year	Annual Report of Board of Directors on the Affairs of the Bank	114
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Item 05 of the Investor Relations	268
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Item 06 of the Investor Relations	268
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Notes to the Financial Statements (Note 28.5)	178
7.6 (ix)	Number of shares representing the Entity's Stated Capital	Notes to the Financial Statements (Note 38)	187
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Item 03 of the Investor Relations	266
7.6 (xi)	Ratios and Market Price information • Equity Ratios • Market Price • Debenture Information • Credit Rating	 Item 04 of the Investor Relations Item 04 of the Investor Relations Item 04 of the Investor Relations Item 04 of the Investor Relations and Corporate Information	 267 267 268 268
7.6 (xii)	Significant changes in the Entity's Property, Plant and Equipment and the market value of land, if the value differs substantially from the book value.	Notes to the Financial Statements (Note 28)	178
7.6 (xiii)	Details of funds raised through public issues, Right Issues, and Private Placements during the year.	Item 9 of the Investor Relations and Notes to the Financial Statements (Note 38)	269 187
7.6 (xiv)	Information in respect of Employee Share Option Scheme.	Not Applicable	-
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Section 7 of the Rules.	Exempted under section 7.10 of Listing Rules since the Bank complies with direction laid down in the Banking Act Direction No. 11 of 2007 on Corporate Governance	-
9.3.2.(a)	Disclosure of non recurrent related party transactions	Item No. 7 of Investor Relations	268
9.3.2.(b)	Disclosure of recurrent related party transactions	Item No. 8 of Investor Relations	268
9.3.2.(c)	Report of the Board Related Party Transactions Review Committee containing specified disclosures	Board Related Party Transactions Review Committee	113
9.3.2.(d)	Declaration by the Board of Directors on Compliance with rules relating to Related Party Transactions	Annual Report of the Board of Directors on Affairs of the Bank	114

1. Stock Exchange Listing

The issued ordinary shares and Debentures of Pan Asia Banking Corporation PLC are listed in the Colombo Stock Exchange.

Instrument	Type	Security Code
Shares	Ordinary	PABC N0000
Debentures		
2014/2019 - 9.75% p.a.	Fixed Rate	PABC D0300
2014/2019 - 9.5233% p.a.	Fixed Rate	PABC D0301
2015/2019 - 10.00% p.a	Fixed Rate	PABC D0355
2015/2019 - 6 Months Average Net T-Bill rate + 3.00%	Floating Rate	PABC D0356

The Audited Statement of Financial Position as at 31st December 2018 and Audited Statement of Comprehensive Income for the year ended 31st December 2018 of the Bank will be submitted to the Colombo Stock Exchange within 03 months from the Statement of Financial Position date.

2. Names, Number and Percentage of Shares held by Twenty Largest Shareholders

As at 31st December 2018

	Name of Shareholder	Number of Shares	Holding as a%
1.	K. D. D. Perera	132,724,230	29.99
2.	Bansei Securities Co., Ltd.	66,384,246	15.00
3.	Seylan Bank PLC/Ambeon Holdings PLC(Collateral)	43,930,641	9.93
4.	W.K. H Wegapitiya	27,303,169	6.17
5.	D. C. C. Joseph	25,199,658	5.69
6.	K. D. H. Perera	23,305,998	5.27
7.	P. J. Tay	21,917,994	4.95
8.	K. D. A. Perera	19,200,000	4.34
9.	Sri Lanka Samurdhi Authority	11,114,376	2.51
10.	Sri Lanka Savings Bank Limited	10,298,499	2.33
11.	R. E. U. De Silva	6,799,582	1.54
12.	A. R. Molligoda	3,737,319	0.84
13.	Bank of Ceylon A/c Ceybank Unit Trust	2,748,651	0.62
14.	Capital Development & Investment Company PLC A/c No.2	2,123,343	0.48
15.	H. Beruwalage	2,046,648	0.46
16.	Favourite Garments (Pvt) Ltd	1,850,000	0.42
17.	M. F. Hashim	1,826,402	0.41
18.	D. T. Beruwalage	1,161,448	0.26
19.	R. A. De Silva	1,139,670	0.26
20.	S. N. P. Palihena	1,000,000	0.23
	Sub Total	405,811,874	91.70
	Balance held by 4,199 Shareholders	36,749,755	8.30
	Total Number of Shares	442,561,629	100.00

INVESTOR RELATIONS

As at 31st December 2017

	Name of Shareholder	Number of Shares	Holding as a%
1.	K. D. D. Perera	132,724,230	29.99
2.	Bansei Securities Co., Ltd.	66,384,246	15.00
3.	Seylan Bank PLC/Lanka Century Investments PLC	43,930,641	9.93
4.	W. K. H. Wegapitiya	27,060,000	6.11
5.	D. C. C. Joseph	25,249,658	5.70
6.	K. D. H. Perera	23,305,998	5.26
7.	P. J. Tay	21,917,994	4.95
8.	K. D. A. Perera	19,200,000	4.34
9.	Sri Lanka Samurdhi Authority	11,114,376	2.51
10.	Sri Lanka Savings Bank Limited	10,298,499	2.33
11.	R. E. U. De Silva	6,799,582	1.54
12.	A. R. Molligoda	3,737,319	0.84
13.	Capital Development & Investment Company PLC A/c No.2	2,123,343	0.48
14.	Favourite Garments (Pvt) Ltd	1,850,000	0.42
15.	M. F. Hashim	1,772,202	0.40
16.	Bank of Ceylon A/c Ceybank Unit Trust	1,466,940	0.33
17.	H. Beruwalage	1,311,648	0.30
18.	A. S. Palihena	1,000,000	0.23
19.	A. P. Somasiri	1,000,000	0.23
20.	Rosewood (Pvt) Ltd – Account No.01	940,130	0.21
	Sub Total	403,186,806	91.10
	Balance held by 4,200 Shareholders	39,374,823	8.90
	Total Number of Shares	442,561,629	100.00

As per the Rules No.7.6 (iv) of the Listing Rules of the CSE, Percentage of Public Holding as at 31st December 2018 was 54.92% in the hands of 4,211 public shareholders. (31st December 2017 - 54.93% in the hands of 4,210 Shareholders).

3. Distribution Schedule of the Number of Shareholders and Percentage of Shareholding

The total number of shareholders as at 31st December 2018 were 4,219 (31st December 2017 - 4,220).

Analysis 1

Range of Shareholding	Resident			Non- Resident			Total		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
1 - 100	938	33,538	0.01%	4	172	0.00%	942	33,710	0.01%
101 - 1,000	1482	735,228	0.17%	6	4,000	0.00%	1488	739,228	0.17%
1,001 - 5,000	972	2,514,811	0.57%	7	22,000	0.00%	979	2,536,811	0.57%
5,001 - 10,000	282	2,158,129	0.49%	6	54,332	0.01%	288	2,212,461	0.50%
10,001 - 50,000	352	8,162,603	1.84%	7	172,718	0.04%	359	8,335,321	1.88%
50,001 - 100,000	79	5,831,561	1.32%	1	52,650	0.01%	80	5,884,211	1.33%
100,001 - 500,000	54	10,907,438	2.46%	1	110,000	0.02%	55	11,017,438	2.48%
500,001 - 1,000,000	9	6,990,575	1.59%	–	–	–	9	6,990,575	1.59%
1,000,001 & above	17	316,509,634	71.52%	2	88,302,240	19.95%	19	404,811,874	91.47%
	4,185	353,843,517	79.97%	34	88,718,112	20.03%	4,219	442,561,629	100.00%

Analysis 1.1

	2018			2017		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Resident Share Holders	4,185	353,843,517	79.97%	4,180	352,879,632	79.74%
Non Resident Share Holders	34	88,718,112	20.03%	40	89,681,997	20.26%
	4,219	442,561,629	100.00%	4,220	442,561,629	100.00%

Analysis 2

Range of Shareholding			Individual			Institutional			Total		
			No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
1	-	100	932	33,284	0.01%	10	426	0.00%	942	33,710	0.01%
101	-	1,000	1,454	723,952	0.16%	34	15,276	0.00%	1,488	739,228	0.16%
1,001	-	5,000	947	2,433,113	0.55%	32	103,698	0.02%	979	2,536,811	0.57%
5,001	-	10,000	263	2,003,554	0.45%	25	208,907	0.05%	288	2,212,461	0.50%
10,001	-	50,000	330	7,611,212	1.72%	29	724,109	0.16%	359	8,335,321	1.88%
50,001	-	100,000	62	4,513,926	1.02%	18	1,370,285	0.31%	80	5,884,211	1.33%
100,001	-	500,000	38	7,806,568	1.76%	17	3,210,870	0.73%	55	11,017,438	2.49%
500,001	-	1,000,000	5	3,670,071	0.84%	4	3,320,504	0.75%	9	6,990,575	1.59%
1,000,001	&	above	12	266,362,118	60.19%	7	138,449,756	31.28%	19	404,811,874	91.47%
			4,043	295,157,798	66.70%	176	147,403,831	33.30%	4,219	442,561,629	100.00%

Analysis 2.1

	2018			2017		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Individuals	4,043	295,157,798	66.70%	4,034	296,387,232	66.98%
Institutional	176	147,403,831	33.30%	186	146,174,397	33.02%
	4,219	442,561,629	100.00%	4,220	442,561,629	100.00%

4. Information on Ratios and Market Prices

4.1 Ordinary Shares

i) Ratios

Year	2018	2017
Dividend Per Share (Rs.)	-	-
Dividend Payout (%)	-	-
Net Asset Value Per Share (Rs.)	25.41	24.11

ii) Market Price

Year	2018 Rs.	2017 Rs.
Highest	17.60	20.30
Lowest	13.00	14.80
Year End	14.80	15.70

INVESTOR RELATIONS

4.2 Debentures

i) Interest Rates, Market Prices and Credit Ratings

	Interest Rate (%)	Interest Rate of Comparable Govt. Security (%)	Market Price (Rs.)	Yield as at the Last Traded Date (%)	Yield to Maturity as at the Last Traded Date (%)	Credit Rating	
						2018	2017
Debenture - 2014/2019							
Fixed Rate - Interest Annually	9.75	11.54	Not Traded	Not Traded	Not Traded	Fitch BB+(lka)	Fitch BB+(lka)
Fixed Rate - Interest Semi Annually	9.5233	11.54	Not Traded	Not Traded	Not Traded	Fitch BB+(lka)	Fitch BB+(lka)
Debenture - 2015/2019							
Fixed Rate - Interest Semi Annually	10.00	11.25	100	10.00	8.77	Fitch BBB-(lka)	Fitch BBB-(lka)
Floating Rate - Interest Semi Annually (6 Months Average Net T-Bill Rate + 3.00%)	11.665	10.77	Not Traded	Not Traded	Not Traded	Fitch BBB-(lka)	Fitch BBB-(lka)

ii) Ratios

	2018	2017
Debt to Equity (Times)	1.42	1.30
Interest Cover (Times)	2.36	2.64
Statutory Liquid Assets Ratio (%)		
Domestic Banking Unit	29.17	23.25
Foreign Currency Banking Unit	20.09	27.04
Liquidity Coverage Ratio (%)		
Rupee	166.08	208.84
All Currency	136.52	195.36

5. Material Foreseeable Risk Factors

Information pertaining to the material foreseeable risk factors that require disclosures as per the Rule 7.6(vi) of the Listing Rules of the CSE are discussed in the Future Outlook in pages 40 & 41 and Risk Management Report on pages 63 to 70.

6. Material Issues Pertaining to Employees and Industrial Relations

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be discussed as per the Rule No. 7.6 (vii) of the Listing Rules of the CSE.

7. Non Recurrent Related Party Transactions

The aggregate value of total non recurrent related party transactions entered into by the Bank during the year has not exceeded 10% of equity or 5% of total assets of the Bank.

8. Recurrent Related Party Transactions

All related party transactions entered by the Bank have been reviewed by the Board Related Party Transaction Review Committee during the year 2018. Such transactions were in usual commercial terms and in ordinary course of the business without favourable treatment to the related parties. Further those transactions were of trading nature or necessary for the day to day operation of the Bank. The aggregate value of recurrent related party transactions (other than the exempted transactions) entered into by the Bank during the year has not exceeded 10% of the gross income of the Bank.

9. New Issues and Utilisation of Funds Raised via Share and Debenture Issues in prior years

The Bank has not raised funds through public issues, rights issues and Private placements during the year (2018).

9.1 Utilisation of Funds Raised via Debenture Issue (Allotted on 30th October 2014)

Objective as per Prospectus	Amount allocated as per Prospectus Rs.	Proposed date of utilisation as per Prospectus	Amount allocated from proceeds in Rs. (A)	% of total proceeds	Amounts utilised in Rs.(B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
To expand and strengthen the capital base and to minimise maturity gap and fund medium and long term advances	3,000,000,000	31st December 2015	3,000,000,000	100%	3,000,000,000	100%	Not Applicable

9.2 Utilisation of Funds Raised via Debenture Issue (Allotted on 29th September 2015)

Objective as per Prospectus	Amount allocated as per Prospectus Rs.	Proposed date of utilisation as per Prospectus	Amount allocated from proceeds in Rs. (A)	% of total proceeds	Amounts utilised in Rs.(B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
To utilise for on-going lending activities of the Bank as a part of its normal course of business	4,000,000,000	31st December 2016	2,690,855,300	100%	2,690,855,300	100%	Not Applicable

9.3 Utilisation of Funds Raised via Rights Issue (Allotted on 3rd March 2017)

Objective as per Rights Issue Document	Amount allocated as per Right Issue Document Rs.	Proposed date of utilisation as per Right Issue Document	Amount allocated from proceeds in Rs. (A)	% of total proceeds	Amounts utilised in Rs. (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
To fund gross loans and advances in the normal course of business	2,065,287,602	2nd June 2017	2,065,287,602	100%	2,065,287,602	100%	Not Applicable

10. Market Capitalisation

Market Capitalisation as at 31st December 2018 - Rs. 6,549,912,109/- (31st December 2017 - Rs. 6,948,217,575/-)

GLOSSARY OF FINANCIAL & BANKING TERMS

A

Acceptance
Promise to pay created when the drawee of a time draft stamps or writes the words 'accepted' above his signature and a designated payment date.

Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis
Recognising the effects of transactions and other events as and when they occur without waiting for receipt or payment of cash or cash equivalents.

Actuarial Gain or Loss
Gain or Loss arising from difference in estimates and actual loss experience in a defined benefit obligation.

Additional Tier 1 Capital (AT1)
Additional Tier 1 is a component of Tier 1 capital that comprises of securities that are subordinated to most subordinated debt , which have no maturity and their dividends can be cancelled at any time.

Advances to Deposit Ratio (ADR)
Total Loans and Advances expressed as a percentage of total deposit portfolio of the bank.

Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life time.

Amortised Cost
Amount at which the Financial Asset or Financial Liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

Assets and Liabilities Committee (ALCO)
A risk-management committee in a Bank that generally comprises the senior-management levels of the Bank. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, and external events that may affect the Bank's forecast and strategic balance-sheet allocations.

B

BASEL III
The strengthened global regulatory framework on capital and liquidity issued by Basel committee on Bank Supervision.

Bills for Collection
A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

Bill of Exchange
A signed, written, unconditional order one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of the third person (the Payee). The terms bills of exchange and drafts are often used interexchangebly.

C

Call Deposits or Call Money
Deposits or funds lent out which are repayable on demand.

Capital Reserve
Reserves identified for specific purposes and considered not available for distribution.

Cash Equivalents
Short Term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Impairment Provisions
Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date.

Commercial Paper
An unsecured, short-term debt instrument issued by a company, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments
Credit Facilities approved but not yet utilised by the clients at the end of the Reporting Period.

Common Equity Tier 1 Capital
Common Equity Tier 1 Capital representing permanent shareholder's equity and reserves created or increased by appropriation of retained earnings or other surpluses.

Contingencies
A condition or situation existing at the end of the Reporting Period where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contractual Maturity
Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest due to be paid.

Corporate Governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank
A Bank in a foreign country that offers banking facilities to the customers of a Bank in another country.

Cost to Income Ratio
A ratio expressing Bank's cost effectiveness which sets overhead expenses in relation to total operating income.

Credit Ratings
An evaluation of a corporate ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

Credit Risk
Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Currency Swaps
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Country Risk
The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

D

Deferred Tax
Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the Current financial year.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition
Removal of a previously recognised financial assets or financial liability from an entity's Statement of Financial Position.

Derivatives
Financial contracts whose values are derived from the values of underline assets.

Documentary Letters of Credit (L/Cs)
Written undertakings by a Bank on behalf of its customers (typically an importer), favouring a third party (e.g. an exporter) where the third party could get paid up to a stipulated amount by fulfilling specific terms and conditions. Such undertakings are established for the purpose of facilitating trade.

E

Earnings per Share
Profit attributable to ordinary shareholders' divided by number of shares in issue during that period.

Effective Interest Rate
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the Financial Asset or Financial Liability.

Effective Tax Rate
Provision for taxation divided by the profit before taxation.

Equity Instruments
Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Events after the Reporting Period
Events after the Reporting Period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Exposure
A claim, contingent claim or position which carries a risk of financial loss.

Exposure at Default (EAD)
The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

F

Fair Value
Fair value as 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.

Finance Lease
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Asset
Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Asset or Financial Liability at Fair Value through Profit or Loss
Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as at fair value through profit or loss.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)
Financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

GLOSSARY OF FINANCIAL & BANKING TERMS

Financial Guarantee Contract
A Financial Guarantee Contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial Investments Available for Sale
Available for sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity or financial assets at fair value through profit or loss.

Financial Investments Held to Maturity
Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Financial Instruments
Any contract that gives rise to a financial assets of one entity and financial liability or equity instrument of another entity.

Financial Liability
A contractual obligation to deliver cash or another financial asset to another entity.

Forborne Loans
The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy.

Forward Exchange Contract
Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

General Provisions
General Provisions are established for all Loans and Advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis in accordance with the regulatory directives.

Guarantees
Primarily represent irrevocable assurances that a Bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H

Hedging
A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements.

Historical Cost Convention
Recording transactions at the actual value received or paid.

I

Individually Significant Loans and Advances
Loans and Advances those are individually significant to the Bank and Impairment of which are measured individual/specific basis.

Impairment
This occurs when recoverable amount of an asset is less than its carrying amount.

Individual Impairment Provisions
Individual impairment provisions are provisions held in account of Individually Significant Loans and Advances.

Impaired Asset Cover
Impaired Assets Cover is the ratio of total impairment provision to total individually impaired assets.

Intangible Asset
An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/ services or for rental to others or for administrative purposes.

Interest in Suspense
Interest due on Non Performing assets.

Interest Margin
Net interest income as a percentage of average total assets.

Interest Rate Risk
The risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

Interest Spread
Represents the difference between the average interest rate earned on interest earning assets and the average interest rate incurred on interest bearing liabilities.

Interest Earning Assets
Assets on which the bank earns interest are considered as interest earning assets. These includes loans and advances, placements with banks, other interest bearing trading and non trading investments.

Investment Properties
Investment property is property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for use or sale.

K

Key Management Personnel
Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

Lifetime Expected Credit Losses
Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Liquid Assets
Assets that are held in cash or in a form that can be converted to cash readily.

Liquidity Risk
The risk that an entity will encounter difficulty in meeting obligations associated with Financial Liabilities.

Loans and Receivables
Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

Loss Given Default (LGD)
LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the Exposure at Default.

M

Market Capitalisation
Number of ordinary shares in issue multiplied by the market value of each share at the year end.

Market Risk
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Accommodation
Total net accommodation computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of five years or more.

Net Assets Value per Share
Shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Income
The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds, subordinated term borrowings & inter-bank borrowings etc.

Non - Performing Advances Ratio (Gross)
Total Non - Performing Advances net of Interest in Suspense divided by total advances portfolio net of Interest in Suspense.

Non - Performing Advance Ratio (Net)
Total Non - Performing Advances net of Interest in Suspense and Loan Loss Provisions divided by total advance portfolio net of Interest in Suspense.

Nostro Account
A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank.

O

Off-Balance Sheet Transactions
Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

Operational Risk
This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Open Credit Exposure Ratio
Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

P

Past Due
A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Provision for Loan Losses
A charge to income added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets to estimated realisable values.

Projected Unit Credit Method
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Probability of Default (PD)
PD is an estimate of the likelihood of default over a given time horizon.

Prudence
Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Purchased on Credit Impaired Financial Assets (POCI)
POCI assets are financial assets that are credit impaired on the initial recognition.

GLOSSARY OF FINANCIAL & BANKING TERMS

R

Ratio of Impaired Loans and Advances
Ratio for Impaired Loans and Advances is the ratio of gross impaired Loans and Advances portfolio as a percentage of gross Loans and Advances.

Related Parties
Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Repurchase Agreement
Contract to sell and subsequently repurchase securities at a specific date and price.

Re-scheduled Credit Facilities
Rescheduled Credit Facilities are facilities which the original repayment terms have been amended due to deterioration in credit quality, while the respective facility is in the 'Performing' status as defined in the relevant regulatory directions.

Re-structured Credit Facilities
Restructured Credit Facilities are credit facilities which the original repayment terms have been amended due to deterioration in credit quality while the respective facility is in the 'Non Performing' status as defined in the relevant regulatory directions.

Return on Assets
Profit after tax divided by the average assets.

Return on Equity (ROE)
Profit after tax expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserve
Reserves set aside for future distribution and investment.

Reverse Repurchase Agreement
Transaction involving the purchase of the securities by a bank or dealer and resale back to the seller at a future date and specified price.

Risk Weighted Assets
On-Balance Sheet assets and the credit equivalent of Off- Balance Sheet facilities multiplied by the relevant risk weighting factors.

S

Segment Reporting
Segment reporting indicates the contribution to the revenue derived from business segments such as retail banking, corporate banking and treasury.

Shareholders' Funds
Total of stated capital, revenue reserves and capital reserves.

Statutory Reserve Fund
A reserve created as per the provisions of the Banking Act No. 30 of 1988.

Stage 1 Financial Assets
When financial assets are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 2. This includes financial assets the credit risk of which have not been significantly increased since the origination.

Stage 2 Financial Assets
Financial assets that have shown a significant increase in credit risk since origination are considered as a stage 2 financial asset. The Bank records an allowance for the LTECLs on stage 2 assets. These include financial assets where the credit risk has improved and the assets that have been reclassified from Stage 3.

Stage 3 Financial Assets
Credit impaired financial assets are considered as stage 3 assets. The Bank records an allowance for the LTECLs for Stage 3 assets.

T

Total Tier 1 Capital
Total Tier 1 Capital comprise of Common Equity Tier 1 Capital and Additional Tier 1 Capital.

Tier 2 Capital
The Tier 2 Capital comprise of Eligible Subordinated Debt, General provision for Performing and Special Mention Credit Facilities and approved Revaluation Surpluses on Freehold Land and Building.

Total Capital
Total Capital representing the sum of Total Tier 1 Capital and Tier 2 Capital.

Transaction Costs
Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Twelve Month Expected Credit Losses (12mECL)
12mECLs are expected credit losses that result from all possible default events over a 12 month period. Stage 1 assets are subject to 12mECLs.

U

Undrawn Credit Lines
Credit facilities approved but not yet utilised by the clients as at the end of the reporting period.

Unit Trust
An undertaking formed to invest in securities under the terms of a trust deed.

Unsecured
Repayment of the principal and interest not being secured by any specific asset.

V

Value Added
Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

Yield to Maturity
Discount rate at which the present value of future payments would equal the security's current price.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the TWENTY FOURTH ANNUAL GENERAL MEETING of PAN ASIA BANKING CORPORATION PLC will be held at The Kingsbury - (Location - The Winchester, Basement Level), No.48, Janadhipathi Mawatha, Colombo 01 on 29th March 2019 at 9.30 a.m. for the following purposes;

1. To receive and consider the Report of the Board of Directors on the Affairs of the Bank and the Audited Financial Statements for the year ended 31st December 2018 with the Report of the Auditors thereon.

2. To re-elect, Takashi Igarashi, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.

3. To re-elect, Toyohiko Murakami, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.

4. To authorise the Directors to determine donations for the year 2019.

5. To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.

Notes :

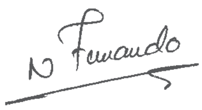
1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead.

2. A proxy need not be a member of the Company. The form of proxy is enclosed herewith.

3. The completed form of proxy must be deposited with the Company Secretary at the Registered Office of the Company, No. 450, Galle Road, Colombo 3 not later than 48 hours prior to the time appointed for the holding of the meeting.

4. Shareholders/proxies attending the meeting are requested to bring their National Identity Cards.

By Order of the Board



Nayantha Fernando
Company Secretary

21st February 2019

NOTES

NOTES

FORM OF PROXY

I/We ....

(NIC No/s...) of ....

.... being

a shareholder/being shareholders of Pan Asia Banking Corporation PLC, hereby appoint

1.	Dimuth Prasanna	of Colombo or failing him
	Sarath Rangamuwa	of Colombo or failing him
	Mohan Abeynaike	of Colombo or failing him
	Takashi Igarashi	of Colombo or failing him
	Toyohiko Murakami	of Colombo or failing him
	Nihal Kekulawala	of Colombo or failing him
	Aravinda Perera	of Colombo or failing him
	Nimal Tillekeratne	of Colombo

2. ....

(NIC No...) of ....

....

as my/our* proxy to vote on my/our* behalf at the Twenty Fourth Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 29th March 2019 at 9.30 a.m. and at any adjournment thereof.

I/We, the undersigned, hereby authorise my/our* proxy to vote for me/us* and on my/our* behalf in accordance with the preference as indicated below.

		For	Against
1.	**Resolution No. 1** To receive and consider the Annual Report of the Board of Directors on the Affairs of the Bank and the Audited Financial Statements for the year ended 31st December 2018 with the Report of the Auditors thereon.		
2.	**Resolution No. 2** To re-elect Takashi Igarashi, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.		
3.	**Resolution No. 3** To re-elect Toyohiko Murakami, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.		

FORM OF PROXY

	For	Against
4. **Resolution No. 4** To authorise the Directors to determine the donations for the year 2019.		
5. **Resolution No. 5** To re-appoint the Auditors of the Bank, M/s Ernst &Young and to authorise the Directors to determine their remuneration.		

As witness I/we* have set my/our* hand/s* hereunto this ....day of ....Two Thousand and Nineteen.

....

Signature of Shareholder.

Note : Instructions as to completion of the Form of Proxy.

1. To be valid, this form of proxy must be deposited with the Company Secretary at the Registered Office situated at No.450, Galle Road, Colombo 3, before 9.30 a.m. on the 27th March 2019 being 48 hours before the time appointed for holding the meeting.

2. In perfecting the form of proxy please ensure that all details are legible.

3. The proxy appointed need not be a shareholder of Pan Asia Banking Corporation PLC.

4. If the shareholder is a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.

5. A shareholder appointing a proxy (other than a Director of the Bank) to attend the meeting should indicate the proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the proxy holder to bring his/her * National Identity Card with him/her*.

6. Please indicate with 'x' in the space provided how your proxy is to vote on each resolution.

* Delete whichever is inapplicable.

CORPORATE INFORMATION

Registered Name of the Company

Pan Asia Banking Corporation PLC

Legal Form

A Public Limited Liability Company incorporated in Sri Lanka on 06th March 1995 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. A Licensed Commercial Bank under the Banking Act No. 30 of 1988 and listed on the Colombo Stock Exchange.

Company Registration Number

PQ 48

Registered Office/Head Office

No. 450, Galle Road,
Colombo 03.
Sri Lanka.
Telephone : +94112565565
+94114667777
+94115167777
Fax : +94112565558

Call Center (24/7 Customer Service Hotline)

Telephone : +94114667222
Fax : +94112575023
SWIFT Code : PABSLKLX
E-mail : customerservice@pabcbank.com
Web Site : www.pabcbank.com

Tax Payer Identification Number (TIN)

134005700

Accounting Year End

31st December

Stock Exchange Listing

i) 442,561,629 Ordinary Shares
ii) 2014/2019 Debentures -30,000,000 Rated, Unsecured, Subordinated, Redeemable Debentures of Rs.100/- each.
iii) 2015/2019 Debentures - 26,908,553 Rated, Unsecured, Senior, Redeemable Debentures of Rs.100/- each.

Board of Directors

Dimuth Prasanna	-	Chairman
Sarath Rangamuwa	-	Deputy Chairman
Mohan Abeynaike	-	Senior Director
Takashi Igarashi	-	Director
Toyohiko Murakami	-	Director
Nihal Kekulawala	-	Director
Aravinda Perera	-	Director
Nimal Tillekeratne	-	Director/CEO
Jayaraja Chandrasekera	-	Director (Resigned w. e. f. 12/02/2019)

Company Secretary

Nayantha Fernando

Board Audit Committee

Mohan Abeynaike	-	Chairman
Toyohiko Murakami	-	Director
Sarath Rangamuwa	-	Director
Nihal Kekulawala	-	Director

Board Credit Committee

Dimuth Prasanna	-	Chairman
Sarath Rangamuwa	-	Director
Aravinda Perera	-	Director
Jayaraja Chandrasekera	-	Director (Resigned w. e. f. 12/02/2019)

Board Integrated Risk Management Committee

Nihal Kekulawala	-	Chairman
Dimuth Prasanna	-	Director
Takashi Igarashi	-	Director

Board Human Resources & Remuneration Committee

Dimuth Prasanna	-	Chairman
Mohan Abeynaike	-	Director
Nihal Kekulawala	-	Director

Board Nomination Committee

Mohan Abeynaike	-	Chairman
Dimuth Prasanna	-	Director
Aravinda Perera	-	Director

Board Strategic Planning Committee

Mohan Abeynaike	-	Chairman
Sarath Rangamuwa	-	Director
Nihal Kekulawala	-	Director
Aravinda Perera	-	Director

Board Related Party Transaction Review Committee

Mohan Abeynaike	-	Chairman
Takashi Igarashi	-	Director
Jayaraja Chandrasekera	-	Director (Resigned w. e. f. 12/02/2019)

Auditors

Ernst & Young
Chartered Accountants
No. 201, De Saram Place,
P. O Box 101,
Colombo 10,
Sri Lanka.

Credit Rating

National Long-Term Rating
Fitch Rating 'BBB-(lka)' Stable Outlook

Instrument Ratings
Senior Debentures 2015/2019 : Fitch Ratings : BBB- (lka)
Subordinated Debentures 2014/2019 :Fitch Ratings : 'BB+(lka)'

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450, Galle Road, Colombo 03, Sri Lanka.

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