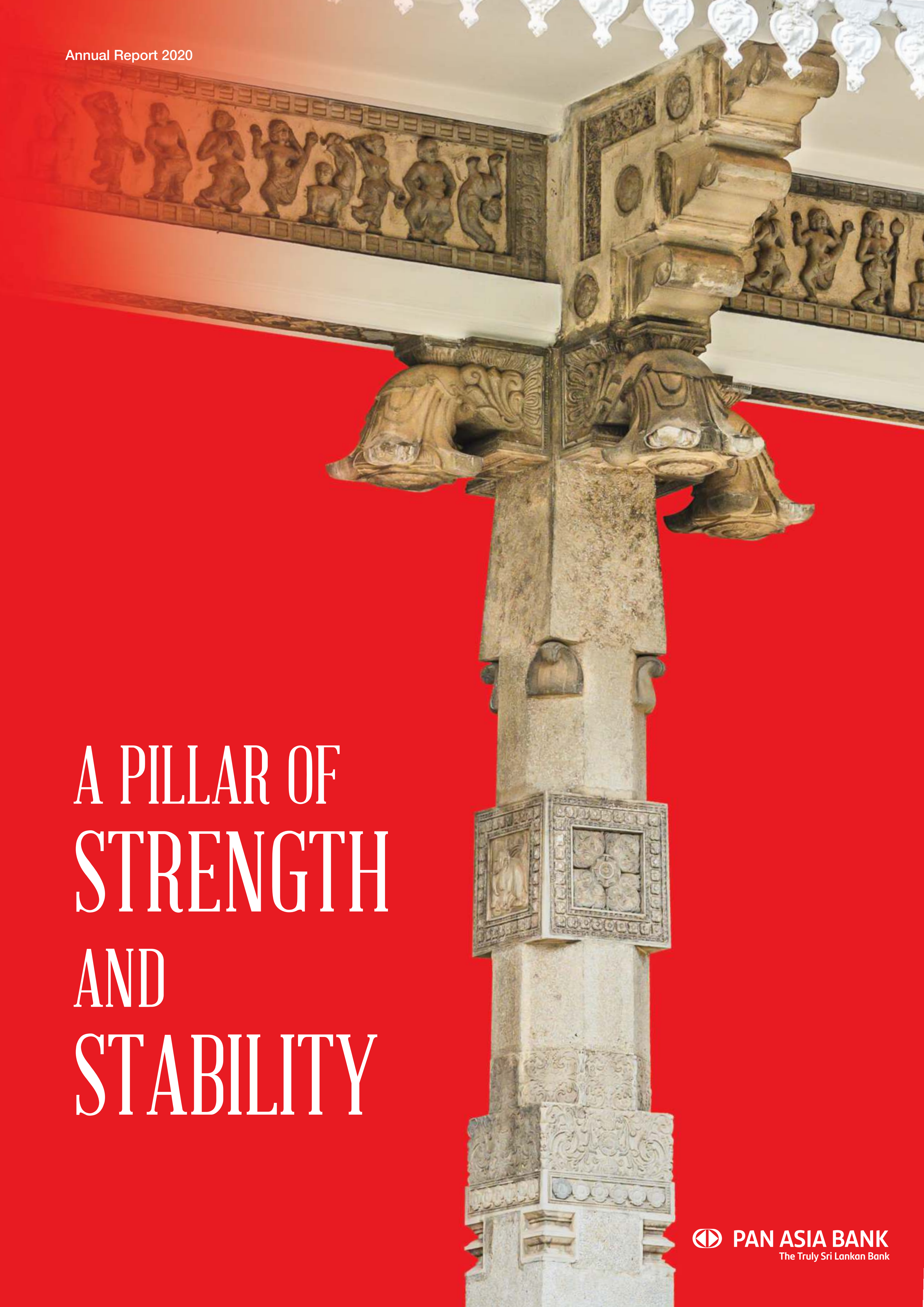
Annual Report 2020



A PILLAR OF STRENGTH AND STABILITY

PAN ASIA BANK
The Truly Sri Lankan Bank

Scan the QR Code with your smart device to view this report online.

A PILLAR OF STRENGTH AND STABILITY

The pillars at Independence Square are inspired by the ornate carvings of the Embekke temple, which are featured in the pages that follow. Built over a solid foundation, these pillars stand tall as a testament to our nation's glorious history - preserving a timeless legacy of value that resonates through the ages.

As we celebrate and pay tribute to monuments that have stood as pillars of our nation's incredible journey - Pan Asia Bank continues to forge ahead as a pillar of strength built to withstand challenges, and empower the progress of the nation and its economy.

As a nation, Sri Lanka has always embodied an inherent strength through the togetherness of its people. In moments of triumph and joy throughout the nation's history, we have witnessed our people remain steadfast against all odds; facing any eventuality and overcoming challenges with an outlook of optimism and hope. Here at Pan Asia Bank, we exemplify the values of our people and their collective strength to take the nation to the forefront of excellence. Over the past 25 years, we have journeyed with the people as a pillar of strength and stability; standing by them through good times and bad, while delivering consistent value through time.

Today, we are poised to take on a future of renewed positivity and change. We're empowered by our innate strength and passion to serve – and act as stable, true representatives of the distinctive strength and resilience that remains at the core of our nation. Pan Asia Bank, The truly Sri Lankan Bank. A pillar of strength and stability.

INSPIRED BY ITS IMPRESSIVE ACHIEVEMENTS OVER THE PAST 25 YEARS, PAN ASIA BANK IS WELL-PREPARED TO THRIVE WELL INTO THE FUTURE, BRINGING INNOVATION AND EXCELLENCE TO ITS OFFERINGS.

25TH

ANNIVERSARY

PAN ASIA BANK

Pan Asia Bank has proudly crafted a legacy of excellence over a span of 25 years— where exceptional customer service, impressive accomplishments and a wide range of innovative, breakthrough products and services continued to fulfill the changing needs of the people, while generating wealth for all shareholders.

Today as a truly Sri Lankan bank, Pan Asia Bank is well-structured to thrive in the future, bringing innovation and excellence to unite and empower our valued customers with the financial support and confidence they need to meet their aspirations for a brighter tomorrow.

OUR SIGNIFICANT MILESTONES

2020

- Profit for the year crossed Rs.2 Billion mark while celebrating the 25th Anniversary.
- Ranked among Business Today's 'Top 30 Business Entities in Sri Lanka 2019/2020'.
- Awarded the 'Best Green Bank in Sri Lanka ' at the Global Banking & Finance Awards 2020
- Became the first Sri Lankan bank to partner with Swiss DFI, Symbiotics for its first green bond issuance
- Runner up in the Product Innovation category at the Client Innovation Awards 2020 organised by Infosys Finacle.

2019

- Included amongst The Business Today's 'Top 30 Business Entities in Sri Lanka for 2018/19' for the first time.
- The First Sri Lankan Bank to be recognised with the prestigious 'Global Climate Partnership Award'.
- Recognised at the Presidential Environment Awards 2019.

2018

- Total Asset base crossed Rs.150 billion and Profit after Tax crossed Rs.1.5 billion.
- Launched the first-ever 'Rising Interest Rate FD Product' in Sri Lanka.
- Fastest Growing Master Credit Card portfolio in Sri Lanka.

2017

- Won Gold Award for Banking excellence at the National Business Excellence Awards - 2017.
- Recognised as the 'Fastest Growing Commercial Bank in Sri Lanka - 2017'.
- Recognised as the 'Most User-Friendly Partner in Sri Lanka's Journey towards Digital Payments' at Lankapay Technovation Awards.
- Opened a dedicated Centre for Private Banking at World Trade Center to cater to High Net -Worth customers.

2015

- Funded the first 'Green' Asset Backed Securitisation in Sri Lanka.
- Migrated to a new Core Banking Solution - 'Finacle'.
- Recognised as the 'Fastest Growing Commercial Bank in Sri Lanka - 2015' by the Global Banking and Finance Review of UK.
- The product 'Budget Leasing' was recognised as the 'Most Innovative Banking Product in Sri Lanka - 2015'.
- Won a Merit Award at the National Business Excellence Awards organised by the National Chamber of Commerce of Sri Lanka.
- Profit for the year crossed Rs.1 billion and Total Assets passed Rs.100 billion.

2016

- Gold Award at the National Business Excellence Awards 2016 organised by the National Chamber of Commerce of Sri Lanka.
- Became part of LankaPay Common ATM Switch (CAS), offering access to over 2,765 ATMs across the country.
- Won the Best Employer of the Year Award at the South Asian Partnership Summit and Business Awards - 2016.
- Recognised as the 'Fastest Growing Commercial Bank in Sri Lanka - 2016' for the third consecutive year.
- "Daskam" Children's savings product anointed the 'Most Innovative Banking Product in Sri Lanka - 2016' by Global Banking & Finance Review.

2014

- The Bank was recognised as the Fastest Growing Commercial Bank in Sri Lanka - 2014 by UK based Global Banking and Finance Review.
- The Bank's flagship product 'Sammana' was recognised as the 'Most Innovative Banking Product in Sri Lanka - 2014' by Global Banking and Finance Review.

2013

- Joined hands with Global Climate Partnership Fund (GCPF) managed by responsAbility to promote Green lending in Sri Lanka.
- Launched the ground-breaking product 'Sammana' to fulfill financial needs to retired public servants.
- Commenced 24x7 banking to provide unparallel services to customers for the first time in the Bank's history.
- Became a primary agent for Western Union Remittance Service.

2011

- Adding 23 new branches across the country took the Bank's total number of branches to 64.
- 365-day banking launched for the first time in the Bank's history.

2005

- The Bank obtained a primary listing at the Colombo Stock Exchange.
- Commemorated 10th glorious year of operations.
- "Sammana" Senior Citizen Account launched for senior citizens, with the privilege of receiving their monthly interest delivered at their doorstep.

2008

- The Bank launched a special savings product 'Ranaviru Harasara' for the members of the armed forces.
- Launched Private Banking services for high-net-worth customers for the first time.
- Staff strength passed 500 mark.

2009

- 'Ranaviru Harasara' project received Merit Certificate for Special CSR Project - 2009 from Ceylon Chamber of Commerce.
- Registered as a licensed Margin Trader with the Colombo Stock Exchange.

2004

- Won the Silver Award for the 'Turnaround Brand of the Year' from Sri Lanka Institute of Marketing.
- Changed the Bank's name to Pan Asia Banking Corporation Limited'.

2002

- Entered into an electronic money transfer agreement with MoneyGram for remittance services.
- Appointed as authorised agent for the National Water Supply and Drainage Board for collection of water bill payments.

1995

- Incorporated on 6th March 1995 as 'Pan Asia Bank Limited'.
- Commenced operations on 26th October 1995 at Level 21, World Trade Center with a great fanfare.
- Reported Profits in the 1st year itself.

CONTENTS

Firm Foundation.
Extensive Impact.

At Pan Asia Bank, we are built upon a firm foundation that has extended its products and services to the Sri Lankan people— whoever they are and wherever they may be.

OVERVIEW

ABOUT PAN ASIA BANK

PAN ASIA BANK
The Truly Sri Lankan Bank

The year 2020 marked a key milestone in the vibrant history of Pan Asia Bank as it celebrated 25 glorious years of serving customers with products and services that have supported their dreams and fulfilled their aspirations. The occasion of the 25th anniversary provides Pan Asia Bank with a wonderful opportunity to thank shareholders, stakeholders, customers, employees, suppliers and business partners for their unstinted support and confidence over the years. Pan Asia Bank today stands strongly positioned as 'a Truly Sri Lankan Bank' that is committed to pioneering innovative and impactful financial solutions to benefit customers and to expand the banking industry. Its industry-leading financial performance year after year - and particularly in 2020 - reflects just how the Bank has remained true to its responsible growth strategy by focusing on efficiently serving customers and clients. Pan Asia Banks' spirit of innovation and growth coupled with a prudent approach to growth and risk has served it well in the most challenging year in the banking industry.

Over the years, its wealth of human capital has been built into a dynamic team of professionals, each playing to their strength in strategic roles as they thrive in a culture of achievement and productivity. Greater employee engagement initiatives and opportunities for fellowship and collaboration have engendered a strong sense of oneness and unity. The Bank's resilience and fortitude in the face of challenges, supported by excellent systems and processes and a highly dedicated and professional team of employees has helped it surpass industry growth year after year.

The Bank's social and environmental impact, which does not feature on a balance sheet, proves its true measure. Pan Asia Bank's prosperity is linked inextricably to the communities it serves, helping them to face challenges with confidence and conducting meaningful corporate social responsibility projects during the year.

Pan Asia Bank demonstrated its empathy and compassion as the Truly Sri Lankan Bank amidst the outbreak of the COVID-19 - extending a helping hand to ease the impact on its customers. We are proud of our rapid response in ensuring our operations continued smoothly, serving customers at their doorsteps with mobile banking units and granting moratoriums to small and medium businesses most affected by the pandemic.

Pan Asia Bank is leading the way in fulfilling its role as a responsible corporate citizen, supporting the people of the nation in a time of need.

Our journey has been strewn with valuable awards and accolades such being ranked among the top 30 businesses in the country from almost 300 listed business entities by Business Today magazine. Pan Asia Bank was also recognised as the Runner-up in the 'Product Innovation' category of the Client Innovation Awards 2020, held by Infosys Finacle - testimony to the bank's commitment to drive innovation and continuously enhance customer engagement and service. In 2020, Pan Asia Bank was awarded the 'Best Green Bank Sri Lanka-2020' accolade at the reputed Global Banking & Finance Review 2020, entrenching its credentials in the global banking and financial services arena.

Pan Asia Bank is on a strong trajectory of growth and expansion, giving its stakeholders the confidence to look forward to many more innovative products and services that fulfill their aspirations. As the Truly Sri Lankan Bank that consistently pioneered industry-firsts, celebrates its 25th anniversary with optimism, Pan Asia Bank pledges to partner its valuable customers and transform their lives with financial security and prosperity.

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.

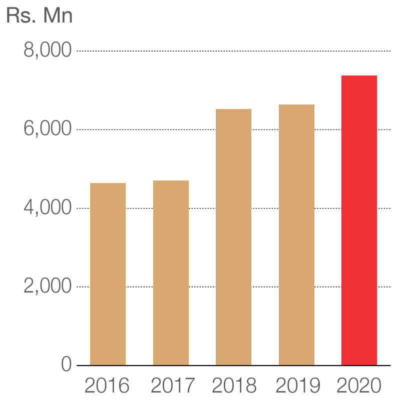
Commitment - We are dedicated to the success of our organisation and stakeholders, including customers, employees and ourselves.

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

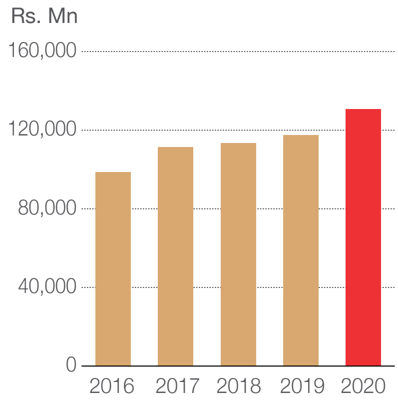
FINANCIAL HIGHLIGHTS

	2020	2019	Change %
Results for the Year (Rs. Mn)			
Gross Income	20,881.42	21,907.66	(4.68)
Net Interest Income	7,369.75	6,634.59	11.08
Total Operating Income	9,360.19	9,065.09	3.26
Operating Profit Before Taxes and Levies on Financial Services	3,528.20	3,402.68	3.69
Profit Before Tax	2,838.17	2,314.14	22.64
Profit for the Year	2,048.17	1,750.57	17.00
Position at the Year End (Rs. Mn)			
Loans and Advances -Gross	130,751.78	117,503.18	11.28
Total Assets	176,940.41	152,979.70	15.66
Due to Depositors	141,079.71	122,544.02	15.13
Shareholders' Funds	15,397.17	13,328.79	15.52
Market Capitalisation	5,753.30	5,664.79	1.56
Financial Ratios (%)			
Net Interest Margin	4.41	4.36	1.15
Return on Equity	14.36	14.50	(0.97)
Return on Assets - Before Tax	1.70	1.52	11.84
Return on Assets - After Tax	1.23	1.15	6.96
Cost-to-Income Ratio	45.66	50.26	(9.15)
Investor Ratios			
Earnings per Share (Rs.)	4.63	3.96	16.92
Net Asset Value per Share (Rs.)	34.79	30.12	15.50
Market Price per Share (Rs.)	13.00	12.80	1.56
Earnings Yield (%)	35.62	30.94	15.13
Price Earnings Ratio (Times)	2.81	3.23	(13.00)
Price to Book Value (Times)	0.37	0.42	(11.90)
Statutory Ratios			
Capital Adequacy			
Common Equity Tier I Capital Ratio (%) (Minimum Requirement 2020 - 6.5%, 2019 - 7%)	13.24	12.87	2.87
Total Tier I Capital Ratio (%) (Minimum Requirement 2020 - 8%, 2019 - 8.5%)	13.24	12.87	2.87
Total Capital Ratio (%) (Minimum Requirement 2020 - 12%, 2019 - 12.5%)	15.74	14.31	9.99
Leverage Ratio (%) (Minimum Requirement - 3%)	6.70	7.06	(5.10)
Statutory Liquid Asset Ratio (Minimum Requirement - 20%)			
Domestic Banking Unit (%)	27.83	24.93	11.63
Foreign Currency Banking Unit (%)	42.36	23.61	79.42
Liquidity Coverage Ratio (Minimum Requirement 2020 - 90%, 2019 - 100%)			
Rupee (%)	177.36	128.84	37.66
All Currency (%)	211.57	165.02	28.21
Net Stable Funding Ratio (%) - (Minimum Requirement 2020 - 90%, 2019 - 100%)	116.80	128.24	(8.92)
Asset Quality			
Non Performing Advance Ratio (%)			
Gross	6.73	6.31	6.66
Net	2.34	2.82	(17.02)
Provision Cover (%)	65.22	55.27	18.00

NET INTEREST INCOME



LOANS AND ADVANCES



EARNINGS PER SHARE

Rs.4.63

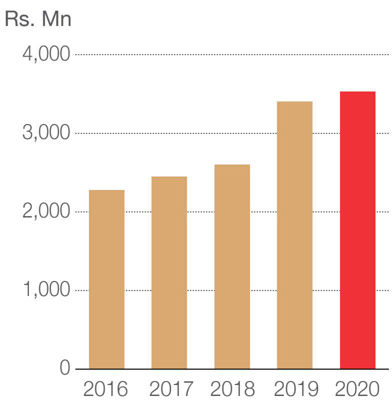
Increased by 16.92%

NET ASSET VALUE PER SHARE

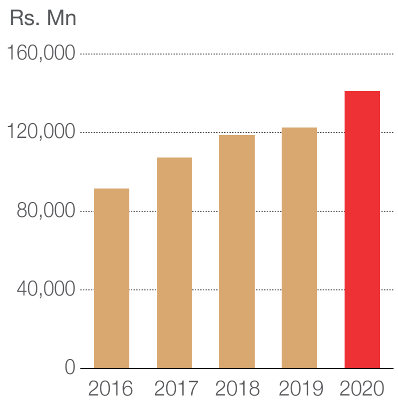
Rs.34.79

Increased by 15.50%

OPERATING PROFIT



DEPOSITS



COST TO INCOME RATIO

45.66%

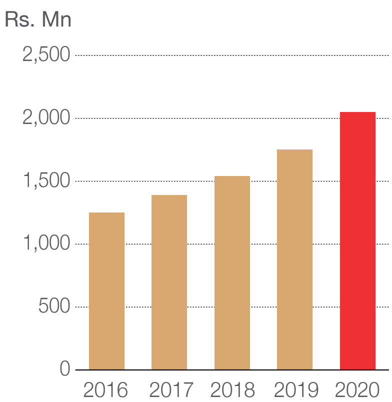
Improved by 9.15%

PROVISION COVER

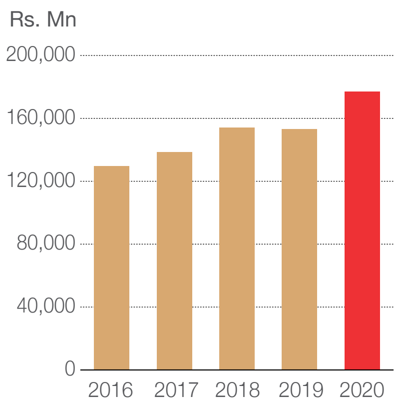
65.22%

Increased by 18.00%

PROFIT FOR THE YEAR



TOTAL ASSETS



LIQUIDITY COVERAGE RATIO - ALL CURRENCY

211.57%

Increased by 28.21%

TOTAL CAPITAL RATIO

15.74%

Increased by 9.99%

ACCOMPLISHMENTS OF THE YEAR

1

Ranked in Business Today Top 30 for 2019/20

Pan Asia Bank was ranked among the Top 30 corporates in Sri Lanka by 'The Business Today' for its strong financial performance, business excellence and good governance standards. The Top 30 is an independent ranking of the country's listed entities based on a comprehensive evaluation of an entity's financial and non-financial performance for the financial years ended in December 2019 and March 2020 conducted with the assistance of KPMG Sri Lanka.

2

Accolade for 'Product Innovation' at Client Innovation Awards 2020

Pan Asia Bank was recognised as the Runner up in the Product Innovation category at the Client Innovation Awards 2020 held by Infosys Finacle, a testimony to the Bank's commitment to drive innovation and continuously enhance customer engagement and service. The Infosys Finacle Client Innovation Awards programme selected Pan Asia Bank on the basis of its impact on banking products and services, customer journeys, processes, distribution channels, and business models leading to additional revenue and profit.

3

'Best Green Bank' at Global Banking and Finance Awards 2020

Pan Asia Bank received attention from global banking circles after being selected as 'Best Green Bank' at the Global Banking and Finance Awards 2020. It is now locally and globally acknowledged as a pioneer promoter of green financing in Sri Lanka, becoming the proud recipient of the first USD 7.75 million Green Bond launched by the Switzerland-based Symbiotics; adding value to its SME base by extending green financing to promote sustainable agricultural practices such as drip irrigation for sugarcane and papaya farmers, amongst other green initiatives.

Collective Strength.
Consistent Outcomes.

Pan Asia Bank has exemplified the collective strength of the Sri Lankan people— while remaining as a strong and consistent support since its establishment.

EXECUTIVE REVIEWS AND MANAGEMENT INFORMATION

CHAIRMAN'S REVIEW

THE PERFORMANCE OF YOUR BANK IN 2020 REFLECTS A MOMENTOUS ACHIEVEMENT OF SURPASSING INDUSTRY PERFORMANCE AND RECORDING ROBUST NUMBERS THAT ARE A TRUE TESTIMONY TO OUR FINANCIALLY, SOCIALLY AND ENVIRONMENTALLY SUSTAINABLE OPERATIONS.

PROFIT FOR THE YEAR

Rs.2.05Bn

Increased by 17.00%

Dear Shareholders,

I consider it a singular honour to welcome you to the 26th Annual General Meeting of Pan Asia Banking Corporation PLC and to place before you the Audited Financial Statements and Annual Report for the financial year ended 31st December 2020. The year under consideration is significant because it marks the Bank's 25th Anniversary and also the first time that Pan Asia Bank surpassed the Profit after Tax figure of Rs.2 billion, an impressive achievement and that too amidst a global pandemic.

Although the theme of this year's Annual Report reflects our successful journey over 25 eventful years marked by innovation and dedication to serve our customers, the performance of Your Bank in 2020 reflects a momentous achievement of surpassing industry performance and recording robust numbers that are a true testimony to our financially, socially and environmentally sustainable operations.

Global economic conditions

The global economy is expected to expand by 4% in 2021, assuming an initial COVID-19 vaccine rollout becomes widespread through the year. A recovery, however, will likely be subdued unless policy-makers move decisively to tame the pandemic and implement investment-enhancing reforms, according to the World Bank. The global economy suffered a 4.3% contraction in 2020, depressing economic activity and incomes for a prolonged period.

The global vaccination drive has given rise to a subdued recovery, however governments the world over are facing challenges in public health, debt management, budget policies, central banking and structural reforms to support economies that have become fragile through the pandemic. The World Bank projects that a downside scenario in which infections continue to rise and the rollout of a vaccine is delayed could limit global expansion to 1.6% in 2021; in an upside scenario with successful pandemic control and a faster vaccination process, global growth could accelerate to nearly 5%.

Economists are cautioning that unless policy makers put in place comprehensive reforms to improve the fundamental drivers of equitable and sustainable economic growth, the world will have a tough time ahead. In emerging market and developing economies, policies to improve health and education services, digital infrastructure, climate resilience, and business and governance practices will be key pillars for economic recovery.

Impact on local economy

The Sri Lankan economy faced one of its greatest threats this year - the COVID-19 pandemic outbreak in the island and the fallout of the resulting lockdown. The impact was so immense that it weighed down economic activity, with the economy contracting markedly in the first two quarters, while recovering slightly in the third quarter as lockdown measures were eased.

The Central Bank of Sri Lanka initiated a series of monetary easing measures, including multiple reductions of the policy rates and the Statutory Reserve Ratio (SRR), thereby injecting ample liquidity into the market and lowering borrowing costs significantly, given the unprecedented circumstances caused by the pandemic. The adverse effects of the pandemic also prompted the introduction of concessional credit schemes to fulfill the needs of small and medium scale enterprises, alongside debt moratoriums for businesses and individuals affected by the pandemic.

Credit to the private sector showed a significant improvement during the second half of the year, reversing the slowdown observed during the first half. The external sector stability was supported by the restrictions placed on non-essential imports and selected outflows as well as low global petroleum prices.

Meanwhile, economic growth is expected to rebound in 2021, and maintain the upward trajectory over the medium term, supported by the pro-growth policies of the government. Many policies to boost domestic production are also expected to ease pressure on the external sector of the economy on a sustained basis.

CHAIRMAN'S REVIEW

Nevertheless, the success of containing COVID-19 locally and globally remains critical to determining the pace and magnitude of domestic economic recovery and revival in the period ahead.

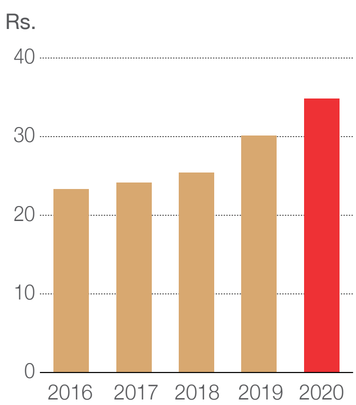
Pan Asia Bank's Response

At Pan Asia Bank, we had the foresight to establish a strong risk and governance framework to guard against any economic shocks, having already established Board oversight for recoveries, improved standards and enhanced credit quality.

During the year under review, keeping in mind that SMEs would be further challenged by the pandemic over and above the hardships they faced due to Easter Sunday attacks in 2019, the Bank focused on the retail arm – successfully mobilising deposits and attracting and retaining customers looking for secure financial partners.

While the nature of the global pandemic would suggest the banking industry would be negatively impacted, Pan Asia Bank took this as an additional challenge and ended FY 2020 with an improved financial performance over the previous year - sustaining increased earnings from core banking operations, which reflect the brand strength of Pan Asia Bank.

NET ASSET VALUE PER SHARE



I am heartened to point out that as 'The Truly Sri Lankan Bank', Your Bank responded to customers impacted by the pandemic, lending financial assistance, technical support and marketing assistance wherever needed to help them navigate the new normal. The Sammana special loan for pensioners more than ever supported senior citizens to live a life of dignity during the pandemic – showing marked growth.

I am proud to state that the dedication and commitment of our professional team was a key pillar of growth as Your Bank surpassed industry norms during the year.

As an agile entity, Pan Asia Bank quickly adapted to the new normal, facilitating 'work from home' to keep employees safe, while ensuring our branches followed strict health protocols. I am pleased to state that not a single branch of Pan Asia Bank reported any breach of safety and customers who visited the branches were able to conduct transactions in a hygienic and secure environment. In addition, the Bank rolled out mobile banking units to customers' doorsteps to help them stay safe. Pan Asia Bank harnessed its digital channels to communicate and engage with customers despite the lockdown.

Sustainability is deeply embedded in Pan Asia Bank

Your Bank's adherence to Environmental, Social, and Governance (ESG) criteria underscores our socially conscious mindset and responsible corporate stewardship. Our relationships with employees, suppliers, customers and communities in which we operate define our commitment. The Bank conducted many CSR projects focused on empowering customers and communities through the challenging year.

Our internal robust risk and governance frameworks are continually evaluated and strengthened in line with mandatory rules laid down by the regulator. Despite the unusual nature of the year under review, Pan Asia Bank's industry status was highlighted through some key awards bestowed on it during 2020 such as 'Best Green Bank in Sri Lanka' at Global Banking and Finance Awards - 2020, Runner-up in the 'Product Innovation' category of the Client Innovation Awards 2020, held by Infosys Finacle and being ranked amongst the Top 30 Corporate Entities for the year 2019- 2020 by Business Today for the second consecutive year.

While we remain committed to growing shareholder wealth and enhancing profitability of the Bank, our overarching goal to consolidate our vision as a sustainable entity remains unchanged.

Our penchant for diversifying risks means Pan Asia Bank was not exposed significantly to any single sector that had been hit badly by the pandemic and we can expect a stable growth in the future. Your Bank will continue its efforts to maintain minimum capital adequacy requirements set by the regulator. Our commitment to responsible growth remains resolute as does customer confidence in and financial stability of the Bank.

Looking Ahead

It would be naïve for us to believe that the world will go back to the way it was once the threat of the pandemic fades. We believe COVID-19 will still be with us for the major part of 2021 and we are geared to conduct operations under the shadow of the pandemic well into the new financial year. Your Bank's strong financial performance in 2020 has given us the confidence and foundation to build back stronger, while providing for the economic impacts on our customers - even provisioning for the same.

The downgrading of Sri Lankan sovereign rating by most of the international credit rating agencies is a cause for concern, but we believe the economic rate of recovery will pick up latest by early 2021, as the Government does not propose further islandwide lockdowns and the vaccination drive is under way.

Pan Asia Bank is reputed for introducing products and services that fulfill real needs of customers and will continue doing so. The inflow of deposits, despite lowering of interest rates reflects the level of trust and confidence in the Pan Asia Bank brand. We believe Your Bank's strong position in green financing, pension loans and other path-breaking products that serve critical segments of the population is what garners respect for us, as The Truly Sri Lankan Bank.

Your Bank has achieved 25 years of banking excellence, and now as we look 25 years into the future, let me assure you that we will stay ahead of our times to deliver wealth to all our stakeholders.

Appreciation

Operating amidst a pandemic and that too successfully was possible only because of outstanding visionary support from my fellow Directors on the Board, the resoluteness of the CEO and corporate management team and the hard work by all employees to overcome a difficult year that challenged us all in so many ways. This contribution is all the more significant considering the institution completed 25 glorious years in 2020. The Pan Asia Bank family was able to come together as one to keep the Bank on even keel. I would like to also thank shareholders, customers, business partners and other stakeholders for their continued support as we pledge to infuse greater value into their lives as The Truly Sri Lankan Bank.

Dimuth Prasanna
Chairman

18th February 2021

CHIEF EXECUTIVE OFFICER'S REVIEW

OUR DISTINCTIVE IDENTITY AS A 'TRULY SRI LANKAN BANK' HELPED PAN ASIA BANK TO FURTHER STRENGTHEN OUR COMMITMENT TO TOUCH MANY DIFFERENT LIVES ACROSS THE COUNTRY BY PROVIDING UNIQUE PRODUCT PROPOSITIONS AND SUPERIOR CUSTOMER SERVICE, AND COMMITTING TO UPLIFT DIFFERENT COMMUNITIES IN A YEAR THAT ALSO MARKED OUR GLORIOUS 25TH ANNIVERSARY IN SERVICE TO THE NATION.

NET INTEREST INCOME

Rs.7.37Bn

Increased by 11.08%

Dear Stakeholders,

I am pleased to share with our shareholders, stakeholders and well-wishers that Pan Asia Bank stands on a stable financial footing, as reflected in its strong balance sheet. The achievement is all the more significant considering that the banking sector and indeed the country had to combat the damaging effects of COVID-19 so soon after the Easter attacks in 2019 and navigate the resultant slowdown in the economy. Despite the various challenges that characterised the year under consideration, Pan Asia Bank successfully delivered its best-ever performance with a profit from operations before all taxes of Rs.3.53 billion reaching the pinnacle of excellence and exceeding budgetary forecasts period amidst challenging macro-economic conditions.

Our distinctive identity as a ‘Truly Sri Lankan Bank’ helped Pan Asia Bank to further strengthen our commitment to touch many different lives across the country by providing unique product propositions and superior customer service, and committing to uplift different communities in a year that also marked our glorious 25th anniversary in service to the nation. The Bank has been a key contributor to the country’s rapid progress over the last 25 years, bringing with it a new sense of hope and optimism. Our unique positioning has helped us move closer to customers and to offer them a more enhanced and personalised level of service.

Our Performance

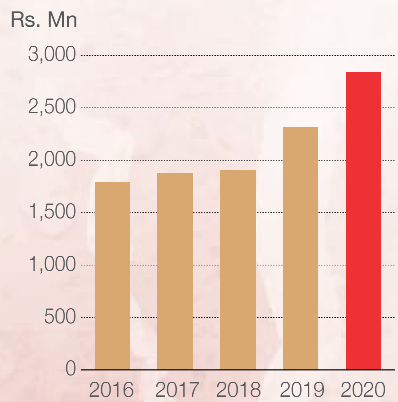
Our culture of prudent financial management has resulted in the Bank reporting a post tax profit of Rs.2.05 billion in challenging times. We achieved this performance whilst outperforming the banking sector, demonstrating the highest earnings from core banking operations year-on-year despite the outbreak of COVID-19. Even though profit before tax was facilitated by the one-off gain due to abolition of taxes and gains from tax savings during 2020, our core banking profits rose sharply. I believe our success was mainly due to the Chairman, Board of Directors and Senior Management’s ability to envision challenges early on and to respond quickly as a team. By year-end 2019 there was ample evidence of pressure building up as the Corporate and SME sectors were leaning towards de-growth even prior to the pandemic; and at Pan Asia Bank we were closely monitoring the quality of our portfolio.

The Retail side of the business made a major contribution, proving to be the core pillar of this strident performance, which is a testimonial to the Bank’s shift of focus from Corporate and SME sectors towards Retail. Our ability to deepen customer and client relationships is driven in part by the investments we are making to provide the best customer care in the industry through a balanced hybrid model of traditional and digital outreach. The Bank’s loans to state sector employees and pensioners showed a remarkable upsurge during the year. More stringent selection criteria were introduced for credit cards and other consumer credit approvals in line with our cautionary approach.

Navigating through Challenges

Sustaining profitable growth despite the contraction in the economy is an uphill task as new investments, growth in advances and business confidence slowed dramatically during the year. Other products which usually do well such as trade finance and overdrafts reported a decline as well, reflecting the weak economic sentiment in the country. No new infrastructure work was launched or completed during the period under review while it was obvious that loan moratoriums would put further pressure.

PROFIT BEFORE TAX



CHIEF EXECUTIVE OFFICER'S REVIEW

The loan books of most banks featured the Government-backed Saubhagya renaissance loans, with many banks accelerating lending under the scheme. For us at Pan Asia Bank, these market signs portended instability. Pan Asia Bank exercised caution when it came to Saubhagya loans, as even though it addresses short term financial difficulties, it is doubtful whether customers would be in a position to service the loans once the facility expired.

Instead, we examined each loan request on a case-by-case basis and did not over-rely on the facility to expand loan books. In order to maintain low NPLs, we strengthened the collections function, encouraging people to pay in instalments via concessional interest rates rather than to wait for the end of the moratorium. This prudent approach protected the Bank from any adverse impact rising from the second wave of COVID-19 which took place in the second half of the year.

By year-end, Pan Asia Bank achieved 3.7% growth in operating profits despite setting aside additional provision buffers for probable deterioration in credit quality once moratoriums ended. We believe the loan moratoriums should not be mandatory as even businesses which do not need to be supported by loans are availing of them since the Easter attacks. Getting customers back into payment mode after almost two years could be a difficult task. These back-to-back disasters in 2019 and 2020 make it difficult to forecast repayment ability, which is why Pan Asia's restrained lending approach ensures financial stability in the next financial year as well.

Many banks are faced with the issues of lower profits due to these moratoriums which will put the banks' capital levels under pressure. Banks lose both interest income and time value losses due to moratorium reliefs offered. In the long term, NPLs could prove to be a serious issue in the banking sector dependent on how long the COVID-19 pandemic lasts.

During the year, Pan Asia Bank introduced a no-cost current account which is attracting customers, while witnessing a 61% improvement in CASA book and an over Rs.13 billion increase in the Current and Savings balances. During COVID-19, the pressure to offer high interest rates on deposits reduced but we continued to see an inflow of deposits despite lower rates due to confidence placed in the stability of the Bank, which is evidenced by the expansion of our customer base.

Committed to Good Governance

Pan Asia Bank remains in line with risk and governance standards. We have internally-built credit rating modules which have been tested for the last two years and will be certified by the University of Moratuwa, so that we can apply for the internal rating model and bring down risk weight on certain facilities to safegaurd capital.

Excelling in governance, we have established five statutory board committees and four voluntary board committees. Monthly meetings with key board members and area managers are organised to boost morale and enhance responsibility and a sense of ownership.

Our mode of delivering sustainable growth requires that we share our success with the communities we serve and towards this end, Pan Asia Bank organised a series of webinars to educate SMEs with technical guidance and expert consultations to help their business, recover hard-hit by the pandemic.

Nurturing our Employees

Another tenet of sustainability that Pan Asia Bank values is maintaining a great place to work for employees who had to undergo the swift transition to the 'work from home' mode during the pandemic, backed by standard operating procedures. Judging by its success, we might look at flexible work requirements to optimise resources and reduce costs in the days ahead. The pandemic was instrumental in resetting the work culture and changing mindsets, which might have been more difficult at another time. Innovation in IT has been key to our success and the Bank operated advanced IT platforms to bring the latest fin-tech solutions for customers in order to ensure convenient and seamless experience throughout the year.

Our employees and customers have appreciated our commitment to health and safety measures during the pandemic, while retaining operational excellence, namely, continuous improvement in our internal and external processes to make it easier for our employees to work with each other and to serve customers. We continue to invest and innovate–even launching an enhanced Business Internet Banking experience during the year.

Pan Asia Bank made history on 13th February 2020 when it became the first Bank to be permitted to provide electronic fingerprinting by the Department of Pensions for the pensioner community.

Drawing Accolades

Awards and accolades have been abundant over the 25 years. Pan Asia Bank was recently recognised as the Runner-up in the 'Product Innovation' category of the Client Innovation Awards 2020, held by Infosys Finacle which is a testimony to the Bank's commitment to drive innovation and continuously enhance customer engagement and experience.

In 2020, Pan Asia Bank has become the recipient of a USD 7.75 million

Green Bond launched by the Switzerland-based Symbiotics, the leading market access platform for impact investing. With this accolade, Pan Asia becomes the first Sri Lankan bank to receive green bond issuance. The Bank will utilise these funds to support and promote local agriculture with special emphasis on encouraging use of indigenous seeds, sustainable agriculture, drip irrigation support for papaya and sugarcane farmers, renewable energy and energy efficiency projects.

A key accomplishment during the year was improving our standing in Business Today's prestigious ranking of the Top 30 corporate entities for the year 2019-2020 – and even more as we celebrate Pan Asia Bank's 25th anniversary this year. In addition to the superlative financial performance our customer centricity is manifested in our innovative products aimed at fulfilling the real needs of various customer segments.

Future Outlook

While Pan Asia Bank was able to sustain and grow its profits amidst the volatile nature of the year, we are acutely aware that going back to business as usual once the threat of coronavirus eases is not an option. Operating models in the banking industry will need change as going on a branch expansion drive may not be guarantee success, once customers adopt online banking. We aim to strategically select the optimum blend of traditional and digital channels that serve customer needs and are cost-effective and viable for our operations. The Bank is already directing energies towards devising new channels of delivery and innovative solutions.

The Central Bank of Sri Lanka has extended the timeline to elevate minimum capital level of Licensed Commercial Banks to Rs.20 billion till 31st December 2022. The Bank is confident of reaching this milestone within the timeline stipulated by the regulator. Now that Pan Asia Bank is the leader in its unique positioning as the 'Truly Sri Lankan Bank', we will ensure greater outreach to the grassroots and the masses with targeted products and services that fufill the aspirations of this segment of the population.

Acknowledgements

I take this opportunity to express my gratitude to the Chairman and the Board of Directors for their support and wise counsel. Our success has been guided by the officials of the Central Bank of Sri Lanka and other regulatory bodies and supported by a professional team, loyal customers, valued shareholders and other stakeholders.

Nimal Tillekeratne
Director/Chief Executive Officer

18th February 2021

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/Chief Executive Officer

Nayantha Fernando
Deputy General Manager – Company Secretary

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, 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 and Lewis Brown Air Services (Pvt) Ltd. He has wide experience in various businesses and 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 30 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 its relaunch and Managing Director of Vallibel Properties (Pvt) Ltd. 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.

BOARD OF DIRECTORS

Takashi Igarashi
Director

A Japanese national, Mr. Igarashi is an enterprising businessman specialising in the re-structuring of unviable business, export of vehicles and heavy machinery from Japan, and development of IT systems. As a Japanese national for the first time, Mr. Takashi established a Licensed Securities Company named New World Securities Ltd. 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 Sushi Bar Samurai (Pvt) Ltd. He was appointed as a Director of Pan Asia Bank in October 2012.

Toyohiko Murakami
Director

Mr. Murakami is the Chief Executive Officer of Bansei Group, Japan. Mr. Murakami has over 35 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 the President and the 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.

Nihal Kekulawala
Director

Mr. Kekulawala counts over 30 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 37 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 Jayewardenapura University. He was also honoured with the 'Award for the Outstanding Contribution to the Banking Industry - 2015' by the Association of Professional Bankers and was also awarded an Honorary Life Membership by the Association of Professional Bankers in October 2018

Nimal Tillekeratne
Director/Chief Executive Officer

Mr. Tillekeratne was appointed as Director/Chief Executive Officer in April 2017. He counts over 43 years of service in the banking industry in Sri Lanka and overseas. He is an Associate of Institute of the 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 on 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 and process digitisation efforts, in addition to setting 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 the retail banking sphere. His exposure to various disciplines in the banking industry is quite wide spread having headed operations, risk, branch credit, commercial credit, credit card business and collections at various banks locally and overseas.

Nayantha Fernando
Deputy General Manager - Company Secretary

Nayantha is an Attorney-at-Law with over 30 years of experience. She was appointed as the Bank's Company Secretary in 1998 and is serving the Bank for over two decades. She is also a member of the Association of Professional Bankers, Sri Lanka.

CORPORATE MANAGEMENT

Left to Right:

1. Nimal Tillekeratne
Director/Chief Executive Officer

2. Naleen Edirisinghe
Senior Deputy General Manager

3. Richie Dias
Deputy General Manager - Treasury

4. Nayantha Fernando
Deputy General Manager - Company Secretary

5. Gerald Wanigaratne
Deputy General Manager/ Chief Information Officer

6. Upali Dharmasiri
Deputy General Manager - Recoveries

7. Jeremy De Zilva
Deputy General Manager - Internal Audit

8. Sobitha Weerasekera
Deputy General Manager - IT Core Banking Development

9. Varuni Egodage
Assistant General Manager - Legal

10. Chandrika Ranawaka
Assistant General Manager - Corporate Banking

11. Harsha Kurukulasuriya
Assistant General Manager - Operations and Administration

12. Shiyan Perera
Assistant General Manager - Retail Credit

13. Thilani Peiris
Assistant General Manager - Commercial Credit

14. Rajendran Rangith
Assistant General Manager/ Chief Risk Officer

15. Suranga Fernando
Assistant General Manager/ Chief Financial Officer

16. Sampath Alwis
Assistant General Manager - Human Resources

17. Nimal Ratnayake
Assistant General Manager - Branch Credit

CORPORATE MANAGEMENT

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Director/Chief Executive Officer

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2. Naleen Edirisinghe
Senior Deputy General Manager

Naleen has 34 years of banking experience in commercial banks specialising 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 Institute of Bankers, Sri Lanka, Fellow of the Certified Professional Managers and a member of the Association of Professional Bankers, Sri Lanka.

3. Richie Dias
Deputy General Manager - Treasury

Richie has 40 years of banking experience in Sri Lanka and overseas and has vast exposure in Fundamental Principles of Market, Liquidity and Operational Risk Management techniques.

He holds a Postgraduate Executive Diploma in Bank Management from the Institute of Bankers of Sri Lanka and an MBA from the University of North West, USA. He is a Member of Association of Professional Bankers, Sri Lanka.

4. Nayantha Fernando
Deputy General Manager - Company Secretary

Nayantha is an Attorney-at-Law with over 30 years of experience. She was appointed as the Bank's Company Secretary in 1998 and is serving the Bank for over two decades. She is also a member of the Association of Professional Bankers, Sri Lanka.

5. Gerald Wanigaratne
Deputy General Manager/ Chief Information Officer

Gerald has over 30 years of banking experience. He has served in both local and foreign banks gaining experience in Branch Operations, Credit and Audit prior moving to Information Technology.

He has 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.

6. Upali Dharmasiri
Deputy General Manager - Recoveries

Upali counts over 33 years of experience in banking which includes over 16 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.

7. Jeremy De Zilva
Deputy General Manager - Internal Audit

Jeremy counts over 30 years of banking experience in both local and foreign banks which includes over 20 years at Senior and Corporate Management capacities.

He holds an MBA from the University of Southern Queensland Australia, a Postgraduate Executive Diploma in Bank Management and Diploma in Banking from the Institute of Bankers of Sri Lanka. He is a Fellow Member of the Institute of Chartered Professional Managers and also a member of the Institute of Internal Auditors USA, Chartered Institute for Securities and Investment UK, Association of Business Executives, UK and Institute of Bankers, Sri Lanka.

He is currently the Vice President /former Secretary General of the Association of Professional Bankers, Sri Lanka and the Immediate Past President of the Bankers' Chief Internal Auditors forum Sri Lanka.

8. Sobitha Weerasekera

Deputy General Manager -
IT Core Banking Development

Sobitha counts over 30 years of experiences in the banking and finance sector in both local and foreign banks.

He holds a Masters Degree in Information Management from SLIIT, an MBA from the Postgraduate Institute of Management of University of Sri Jayewardenepura and has a Diploma in Computer Systems and Design. He is also a Fellow of British Computer Society and a member of Australian Computer Society.

9. Varuni Egodage

Assistant General Manager -
Legal

Varuni counts over 20 years of banking experience in the field of Law.

She holds LL.B, MBA and LL.M Degrees, from the University of Colombo and also holds a Post Attorney Diploma in Banking and Insurance Law from the Sri Lanka Law College.

10. Chandrika Ranawaka

Assistant General Manager -
Corporate Banking

Chandrika counts over 26 years of banking experience in both local and overseas banks. He has over 15 years experience in Credit Analysis and managing local as well as multinational global relationships.

He holds an MBA from the University of Southern Queensland Australia and a Postgraduate Diploma in Business and Finance from the Institute of Chartered Accountants of Sri Lanka. He is also an Associate of Institute of Bankers, Sri Lanka and Sri Lanka Institute of Credit Management.

11. Harsha Kurukulasuriya

Assistant General Manager -
Operations and Administration

Harsha counts over 33 years experience in both local and overseas banks specialised in branch banking and all areas of branch and centralised operations.

He holds an MBA from the American City University, USA and also an Associate of Institute of Bankers, Sri Lanka.

12. Shiyan Perera

Assistant General Manager -
Retail Credit

Shiyan counts over 25 years of experience in both banking and leasing industries.

13. Thilani Peiris

Assistant General Manager -
Commercial Credit

Thilani counts over 27 years of experience in banking which includes over 11 years in the Senior Management covering branch banking, private banking, regional management and off shore banking.

She has had extensive training in leadership & private banking in Sri Lanka, Singapore and from Indian Institute of Management (IIM), Ahmadabad, India.

14. Rajendran Rangith

Assistant General Manager/
Chief Risk Officer

Rangith counts over 20 years of experience in banking out of which 9 years in the Senior Management capacity.

He is a Fellow of Chartered Institute of Management Accountants (FCMA), United Kingdom and holds a BSc Degree (External) in Business Administration from the University of Sri Jayewardenepura.

15. Suranga Fernando

Assistant General Manager/
Chief Financial Officer

Suranga counts over 12 years of managerial experience in fields of Banking, Finance, Taxation and Auditing.

He is an Associate of the Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka. He holds a Bachelors Special Degree in Accounting from the University of Sri Jayewardenepura, Sri Lanka and an MBA from the University of West London, United Kingdom.

16. Sampath Alwis

Assistant General Manager -
Human Resources

Sampath counts over 24 years of overall experience in the field of Human Resources in diverse industries including Manufacturing, Travel & Tourism, Apparel, BPO, IT, Finance & Accounting, Retail & FMCG.

He holds a Postgraduate qualification in Management from the Postgraduate Institute of Management of University of Sri Jayewardenepura, Sri Lanka, Diplomas in HR Management (UK and Sri Lanka). Additionally, he holds qualifications in Business Management and HR Certification from the Indian Institute of Management (IIMA), Ahmadabad, India. He is a professional member of Association of HR professionals, Sri Lanka and holds the position of Treasurer and also a member of Indian Institute of Management (IIMA), Ahmadabad, India.

17. Nimal Ratnayake

Assistant General Manager -
Branch Credit

Nimal counts 29 years of experience in the banking industry covering branch banking, credit evaluation and disbursement, recovery of credit facilities, regulatory compliance and exposure to all areas of risk.

He holds an MBA from the Postgraduate Institute of Management of University of Sri Jayewardenepura, an Advanced Diploma in Management Accounting from CIMA and an Associate of Institute of Bankers, Sri Lanka.

SENIOR MANAGEMENT


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1. Umaharan Jeganathan
Chief Manager - Consumer Credit

2. Yohan Ebell
Chief Manager - Recovery

3. Thushari Malalgoda
Chief Manager - Human Resources

4. Harsha Samaranayake
Chief Manager - Corporate Banking

5. Charith Leelarathne
Chief Manager - Internal Audit

6. Sirimevan Senevirathne
Chief Manager - Marketing and Cards

7. Buddhika Perera
Chief Manager - Deposit Mobilization

8. Vajira Abeysundera
Chief Manager - Treasury

9. Thilani Punyawansa
Senior Manager II/Chief Compliance Officer

10. Sanjaya Weerasekera
Senior Manager II - Credit Risk

11. Anushka Wimalasena
Senior Manager II - Operations

12. Laknimala De Alwis
Senior Manager II - Credit Audit


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13. Rajitha Silva
Senior Manager - Administration and Premises

14. Prakash Selvarajah
Senior Manager - Operations

15. Thushara Suraweera
Senior Manager - Branch

16. Anuradha Gamage
Senior Manager - Branch

17. Chamath Atukorale
Senior Manager - Treasury Middle Office

18. Renuka Kurukulasuriya
Senior Manager - Branch

19. Renuka Premkumar
Senior Manager - Branch

20. Aravinda Rodrigo
Senior Manager - Corporate Banking

21. Sudhila Perera
Senior Manager - Branch Credit

22. Thilini Ramanayake
Senior Manager - IT Projects

23. Premanathan Prathaban
Senior Manager/Area Manager - North & East

24. Indika Liyanage
Senior Manager - Trade Services

SENIOR MANAGEMENT

25. Kithsiri Weerakoon
Senior Manager/Area Manager - Colombo South

26. Anuradha Ranaweera
Senior Manager/Area Manager - Southern

27. Primal Vithana
Senior Manager/Area Manager - Colombo Outer

28. Jagath Athukorala
Senior Manager - IT Infrastructure

29. Trishene De Mel
Senior Manager/Area Manager - Colombo Inner

30. Darshika Peiris
Senior Manager - Treasury Settlement

31. Nilanga De Silva
Senior Manager - Treasury

32. Sanjaya Silva
Senior Manager - Administration and Premises

33. Sithara Jayakody
Senior Manager - Credit Administration

34. Asanka Theadore
Senior Manager - Leasing

35. Sanka Thilakarathne
Senior Manager/Area Manager - Central

36. Duminda Hettiarachchi
Senior Manager - Branch

Resilient Strategies.
Exceptional Performance.

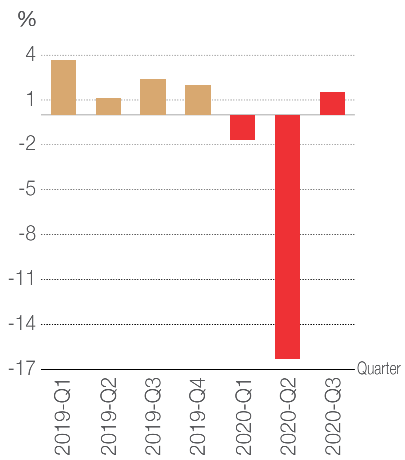
At Pan Asia Bank for over 25 years, we have adopted resilient strategies to perform well and take the nation to the forefront of excellence.

MANAGEMENT DISCUSSION AND ANALYSIS

MACRO ECONOMIC REVIEW

Sri Lanka's economic growth was poised for recovery as at the end of 2019. Then, the COVID-19 pandemic swept the world – with devastating economic and health consequences. After expanding 2.3% in 2019, the Sri Lankan economy, which contracted by 1.7% and 16.3% in the first and second quarters of 2020, respectively, rebounded in the third quarter of 2020 and recorded a growth of 1.5%. (As per the GDP estimates published by the Department of Census and Statistics). The contraction, a first in 19 years, was driven by weak performances of construction, textile, mining, tourism and tea industries. Growth faltered even more in the second quarter, as curfews impeded economic activity and global demand remained weak. Moreover, the closure of airports to tourists from April 2020 onwards brought tourism activity to a standstill.

REAL GDP GROWTH



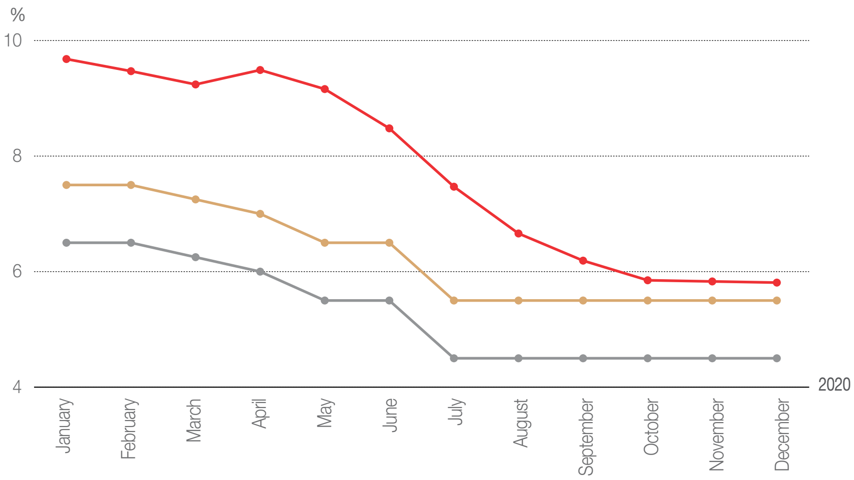
GDP Growth Rate

Source : Central Bank of Sri Lanka

Responding to the first signs that domestic economic activity during the year 2020 would be affected by the spread of the global pandemic to Sri Lanka, the Monetary Board of the Central Bank of Sri Lanka reduced the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank in January and did so at other points through the year in consideration of the urgent need to support economic activity enabling the domestic financial market to provide further relief to businesses and individuals affected by the outbreak of the COVID-19 pandemic and restrictions placed to contain its spread within the country. The policy rates finally amended in July 2020 to remain SDFR & SLFR at 4.50% and 5.50%, respectively and maintained at same level rest of the year.

Weak demand kept inflation in check in 2020, creating room for policy support. Annual average inflation measured by the Colombo Consumer Price Index was 4.2% in December 2020 despite high food inflation. This allowed the Central Bank to reduce policy rates by 250 basis points and the reserve ratio by 300 basis points over the first seven months of 2020. A notable recovery in economic activity was forecasted in the third quarter of 2020; however the onset of the second wave of COVID-19

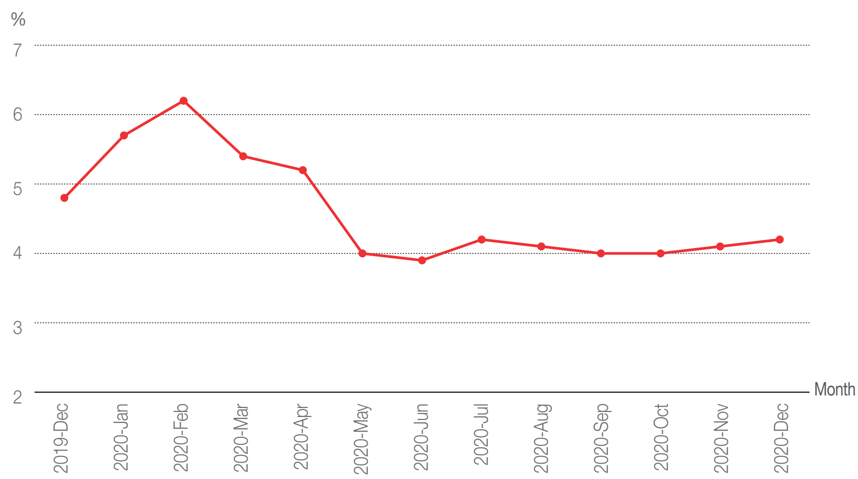
BEHAVIOUR OF POLICY RATES



AWPLR
SLFR
SDFR

Source : Central Bank of Sri Lanka

INFLATION: Y-O-Y % CHANGE IN CCPI



Inflation Rate

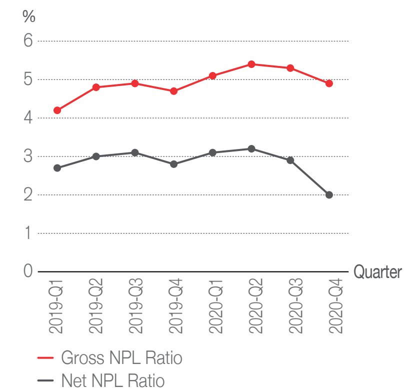
Source : Central Bank of Sri Lanka

in October adversely affected this momentum. Inflation, as reflected by the movements in the national and urban price indices, eased in October 2020, with headline inflation remaining within the targeted range of 4% - 6% and core inflation remaining low, reflecting subdued underlying demand pressures.

The CBSL also introduced a refinancing facility and a credit guarantee scheme to encourage commercial banks to increase lending. Despite these measures, private credit growth remained subdued in the first half of 2020. However credit extended to the private sector continued to expand during the second half of 2020 supported by policy easing measures adopted by the CBSL. Meanwhile, overall domestic credit expanded notably, driven by the substantial increase in credit to the public sector. Reflecting the impact of increased domestic credit, the growth of broad money (M2b) continued to accelerate in 2020 providing ample liquidity to support domestic economic activity. Meanwhile Central Bank in order to support economic revival, introduce maximum interest rates on mortgage backed housing loans for salaried employees in December 2020, while lending targets for selected sectors of the economy to be introduced in the near future.

Asset quality and earnings of the financial businesses deteriorated, reflecting the impact of decelerating loan recoveries and shrinking margins. Debt Moratorium introduced by CBSL as relief measures to safeguard affected sectors in the economy has deferred new NPA arrivals up to certain period.

NON-PERFORMING LOANS OF THE BANKING SECTOR



Source : Central Bank of Sri Lanka

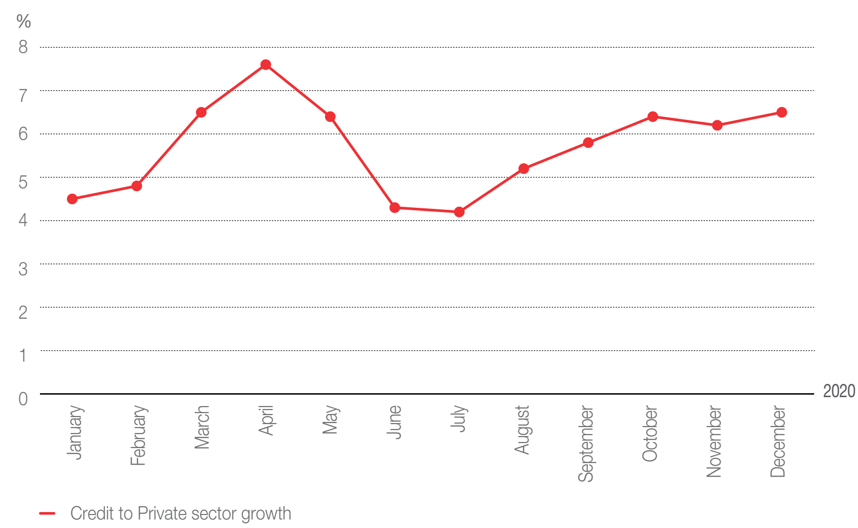
The current account deficit is estimated to have narrowed in the first half of 2020. A reduction in imports due to severe import restrictions is likely to have offset reduced receipts from remittances, tourism, tea and textiles.

Meanwhile workers' remittances have grown by 5.8% to US dollars 7.1 billion in 2020, with a historic high level of remittance receipts in December 2020. With these developments the trade deficit continued to narrow, through the second half of 2020.

Measures that are being introduced to improve the domestic production economy, to enhance exports and to attract foreign direct investment, along with political stability, policy consistency and the projected recovery in the global economy are expected to strengthen Sri Lanka's external sector in the period ahead. Both deposit and lending rates have declined notably, while some interest rates have reached historic lows. However, the pace of reduction of market interest rates has slowed in the recent past. The historically low levels of policy interest rates and the Statutory Reserve Ratio, as well as the availability of significant excess liquidity in the domestic money market, provide further space for market lending rates to adjust downwards in support of the recovery of domestic economic activity.

Despite this disturbance to the near term growth prospects, the economy is expected to rebound strongly in 2021 and sustain its growth momentum over the medium term, supported by the stimulus measures already in place and the effective implementation of the pro-growth policy proposals announced in the Government Budget 2021.

GROWTH IN CREDIT TO PRIVATE SECTOR



Source : Central Bank of Sri Lanka

FINANCIAL REVIEW

Overview

2020 was a momentous year for Pan Asia Bank and one that marked the achievement of formidable financial and operational milestones. The Bank celebrated 25 years of successful operations and recorded the highest-ever figures in Operating Profit before taxes and levies on financial services, Profit before income tax as well as Profit after tax.

The Bank sustained this remarkable performance while operating in a less conducive macro-economic environment overshadowed by the COVID-19 pandemic, deteriorating credit quality, volatility of interest rates due to lower interest regime, imposing interest rates caps on lending products, increase in relief measures given to borrowers via debt moratorium and weaker performance of the overall economy–the main headwinds experienced by the entire financial system.

The impact of higher impairment charges and pandemic-linked concessions already granted to borrowers resulted in dampening earnings up to a certain extent while deferment of loan payments for customers affected by the pandemic extended pressure on near term impairment charges up to a certain level. Net fees and commission income were constrained as a result of the disruption caused by the COVID-19 pandemic, especially on trade-related activities and the reduction of fees and charges earned by the Bank as required by the Central Bank of Sri Lanka. The unique, diversified business model of the Bank has continued to exhibit the strength to overcome multiple challenges arising from various operational factors.

The Bank's growth in both profit before income tax and profit for the year was also supported by the low financial services taxes regime that prevailed throughout the year. The removal of the Nation Building Tax on Financial Services and the Debt Repayment Levy proved to be extremely crucial to maintain the stability of the banking sector, especially in the current context. This performance was reflected in Profit before tax growing by 22.64% to Rs.2,838.17 million. Meanwhile, the Profit for the year grew by 17.00% to Rs.2,048.17 million.

Emanating from the impressive bottom-line, Earnings per Share for the year 2020 rose to Rs.4.63 from Rs.3.96 in the previous financial year, while Pre-Tax Return on Assets rose to 1.70% from 1.52% reported in the previous financial year. Meanwhile, the Bank's Post-Tax Return on Assets improved to 1.23% in 2020 from 1.15% in 2019. In the backdrop of this exceptional financial performance, the Bank managed to report steady key profitability indicators, that is, Return on Equity (ROE) to 14.36% in 2020, which now ranks amongst the highest in the industry in 2020.

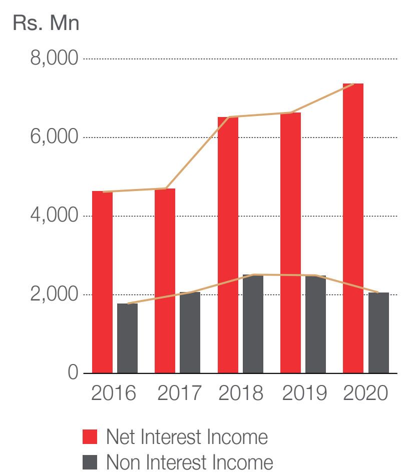
The financial performance of the Bank during the year is elaborated further as follows:

Net Interest Income

Interest income accounted for 90.13% of the Bank's gross income in 2020 despite interest income declining to Rs.18.82 billion in 2020 from Rs.19.42 billion recorded in 2019. The monetary easing adopted has led to a 400 bps drop in Average Weighted Prime Lending Rate (AWPLR) since the beginning of the year 2020. The Interest Income of the Bank declined in tandem with the drop in market interest rates by over 300 bps compared to year of 2019. Meanwhile, the loan modification losses relating to interest concessions granted as pandemic relief to borrowers and interest rate caps on selected lending products hindered the interest income on loans and advances during the year under consideration. However, remarkable growth achieved in the Retail lending segment offset the pressure on interest income to a certain extent.

Meanwhile, under the prevailing low interest cost regime, the Bank managed to reduce the interest expenses by 10.41% to Rs.11.45 billion in 2020, at a pace faster than the drop in yields on interest earning assets. The Bank's funding cost, which was above the industry average at the beginning of the year, improved substantially by over 300 bps during the year 2020 and is well-anchored to compete with peer banks by offering lending products at competitive rates. Consequently, the Bank's Net Interest Income grew by a remarkable 11.08% to Rs.7.37 billion in 2020 from Rs.6.63 billion in 2019.

NET INTEREST INCOME VS NON INTEREST INCOME



Non-Interest Income

The Bank's total Non-Interest Income consisting of fees and commission income, net trading gains and other operating income came down substantially by 17.29% in 2020 compared to 2019, caused by COVID-19 induced restrictions on Trade Finance and related activities as well as low level of economic activities. The fees from Credit Card related businesses too declined with numerous waivers granted to consumers under relief measures and a drop in card spending due to changes in customer spending patterns owing to the pandemic. Meanwhile, fees and commission expenses increased by 15.54% in 2020, which finally caused net fees and commission income to contract by 17.42% to Rs.1,276.06 million in 2020.

Net gains from trading activities witnessed a dip of 26.28% in 2020 to Rs.478.88 million from Rs.649.58 million reported in 2019, mainly driven by subdued income generation from trading related activities, given the high price volatility in the market. Meanwhile, Foreign Exchange (FX) trading and Swap trading activities slowed during the year caused by restricted international trade related activities linked to the pandemic.

Other Operating Income remained unchanged at the same level of Rs.235.50 million in 2020 compared to previous year 2019. As a result, total operating income of the Bank grew by 3.26% to Rs.9.36 billion in 2020.

Credit Quality

The Bank witnessed its Gross Non-Performing Loan (NPL) Ratio increasing upwards by 42 bps to 6.73% in 2020, due to deterioration in credit quality seen across the industry throughout the year 2020. The industry gross NPL ratio saw an increase from 4.7% at end 2019, to 4.9% by end 2020. Meanwhile, the gross NPL ratio of smaller banks remained at 7.9% by year-end 2020. The Bank's Net Non-Performing Loan Ratio improved to 2.34% in 2020 from 2.82% in 2019, supported by prudential provisioning for possible credit losses while the industry average also improved from 2.80% to 2.00% over the past twelve months amidst the growth in loan book.

The Bank's concentration on Stage 3 loans and advances, which is a key sign of credit quality, improved by 91 bps to reach 8.49% levels by end of 2020 due to improved underwriting standards and concerted efforts for collection and recoveries of the Bank to manage and control the possible losses. Meanwhile, loans and advances amounting to Rs.9.12 billion moved from Stage 1 and Stage 2 during the year due to elevation of credit risks.

Impairment Charges

Impairment Charges for loans and advances and other financial instruments for the financial year 2020 was Rs.1.60 billion reporting an increase of over 40%. The increase in the impairment charges were caused by the increase in the allowances made on collectively assessed portfolios in line with the growth in the loan book and allowances made in response to elevated risks caused by the pandemic and other stresses. As a result the collective impairment charge for the year increased by Rs.764.06 million or by 112.35% compared to the previous year.

Meanwhile, the impairment provisions on credit exposures in Stage 1 and Stage 2 increased by Rs.135.07 million and Rs.650.55 million respectively reflecting the signs of general deterioration in credit quality. The Bank used the credit ratings published by Fitch Ratings to determine the Probability of Defaults on foreign currency denominated government bonds while the multiple notch credit rating downgrades that took place in 2020 led the Bank to recognise higher impairment charges amounting to Rs.243.34 million during 2020.

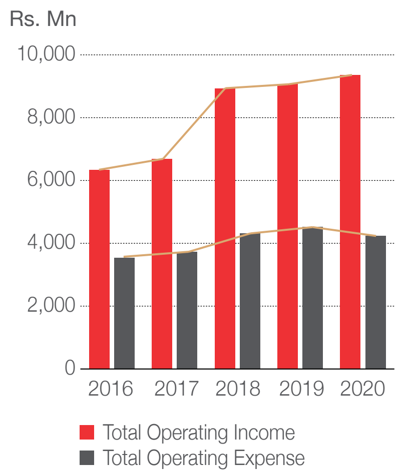
Meanwhile, the Bank's provision for individually assessed borrowers decreased to Rs.151.95 million from Rs.456.81 million in provisions made in the year 2019, delivering significant reduction in individual impairment charges by over Rs.300 million due to the success of aggressive recovery efforts.

Operational Efficiency

The Bank strived for earnings maximisation through portfolio re-alignment and cost management despite sector vulnerabilities that prevailed during 2020. The Bank's Cost to Income Ratio improved from 50.26% to 45.66% during the year under review owing to the excellence in core banking performance which reflected in noteworthy growth in net interest income and measures taken to contain overhead costs. In fact, the Bank managed to bring down total operating expenses by Rs.289.61 million in 2020 compared to the previous year.

The Bank also managed to curtail total operating expenses consisting of personnel expense and other operating expenses by 6.40% to Rs.4,235.95 million during the year under review from Rs.4,525.56 million in 2019, largely supported by implementation of cost-containment strategies in tandem with continued vigorous cost management initiatives, particularly process re-engineering to achieve leaner and efficient processes. The Bank witnessed a 10.15% decline in Other Operating Expenses in 2020, while Personnel Expenses contracted by 1.55% driven by staff rationalisation programmes in place to maximise best returns on human capital and reduction in bonus expenses compared to 2019.

TOTAL OPERATING INCOME VS
TOTAL OPERATING EXPENSES



Taxation

With the removal of Nation Building Tax (NBT) on Financial Services and Debt Repayment Levy (DRL) from 1st December 2019 and 1st January 2020 respectively, the Bank made a sizable saving on Taxes and Levies on Financial Services of over to Rs.400 million during the year under review.

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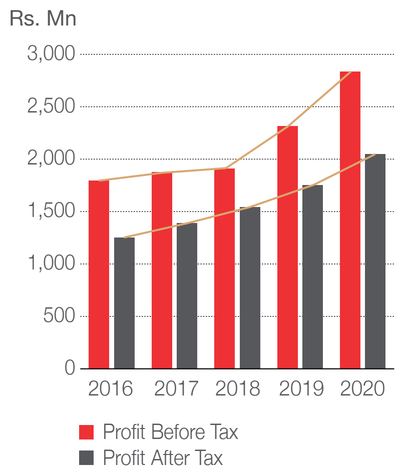
The Bank's contribution to the government income taxes increased by 12.69% to Rs.895.37 million in 2020, compared to Rs.794.56 million in 2019 due to increased profits. Meanwhile, total income tax expenses for the year increased at a much higher rate of 40.18% due to differences in tax adjustments made in 2020 and 2019 in relation to previous years.

As a result of the above, the Bank's total effective tax rate declined to 41.95% in 2020 from 48.55% in 2019.

PRE-TAX PROFIT VS POST-TAX PROFIT



Financial Position

The Bank sustained a 15.66% growth in total assets during the year 2020 compared to a marginal contraction of 0.68% observed in 2019. Total assets growth predominantly stemmed from customer loans and advances which grew remarkably during the year amidst a challenging operating environment. Apart from lending, investments in government debt securities largely contributed for the boost in the asset book given the excess liquidity created by impressive CASA growth investing in liquid assets in the backdrop of low demand for credit. Despite the challenges faced by the economy and the banking sector during this year induced by the pandemic, the Bank's total assets increased by Rs.23.96 billion and recorded a growth of 15.66%.

Composition of Assets

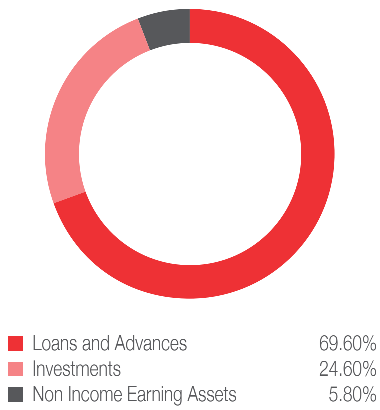
Concessions offered to borrowers by the government and overall weak economic performance curtailed the growth of banks in 2020. Nevertheless, the Bank grew its gross loan book to Rs.130.75 billion at a growth rate of 11.28%, in contrast to the previous year's credit growth of over 3.53%. The main lending products that drove the growth in 2020 were Term Loans, Gold Loans and Leasing.

During the year under review, the Bank did not lend vigorously to sectors that exhibited high stress as a measure of the Bank's prudential lending decisions. Meanwhile, the Bank implemented a number of relief schemes in line with the Government directives to support customers impacted as a result of the pandemic. This includes over 393 Saubhagya COVID-19 Renaissance Loans amounting Rs.1,767 million granted to fulfill working capital needs of borrowers. Meanwhile, the Bank enabled payment deferrals for borrowers who applied for debt moratorium under schemes introduced due to COVID-19. As at the end of December 2020, approximately 10% of the loan book is enjoying moratorium relief.

The Bank strategically shifted exposure of high risk segments to ones with fairly low level of default risk, taking a short-term hit on the interest income in view of minimising potential credit losses. Reflecting the results of this prudential move, the Bank managed to maintain NPA ratio at a manageable level apart from the pressure induced by the pandemic by bringing cash flows of customers to a standstill. The Bank's concentration on the SME sector condensed from 33.42% to 28.35% over the past 2 years, allowing opportunities to address some of the long-standing structural weaknesses and to re-design strategies to build market share.

Due to the aforesaid prudential move, the Bank was able to contain the increase in impairment allowances at 40.39% amidst the severe economic damage caused by the pandemic. Total impairment allowances on loans and advances rose to Rs.7.59 billion for Rs.130.75 billion gross loans in 2020.

COMPOSITION OF TOTAL ASSETS



Funding Structure

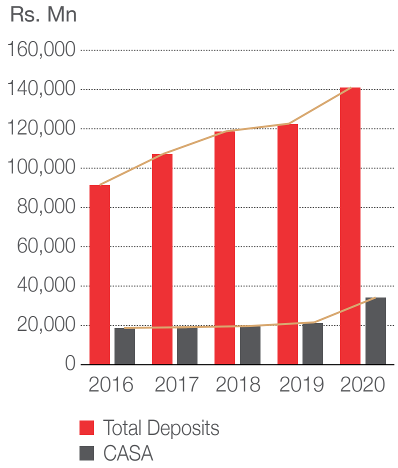
Amidst the low interest rate regime that prevailed during the year, the customer deposit base grew by an impressive Rs.18.54 billion - recording a growth of 15.13% during the year 2020. Supported by contributions from the Retail and Corporate segments, the Bank's CASA base saw an impressive growth of 60.60% during the year, growing by Rs.12.90 billion to Rs.34.19 billion as at the end of December 2020. Meanwhile, the Bank's CASA ratio, which stood at 18.25% as at 31st December 2019, increased to 25.16% by end of December 2020.

These improvements ensured the Bank maintained strong liquidity position throughout the year with Statutory Liquid Assets Ratio (SLAR) and Liquidity Coverage Ratio (LCR) being well above regulatory minimum requirements during the year under review. The Total Deposit Book of the Bank grew by 15.13% to Rs.141.08 billion in 2020 from Rs.122.54 billion in 2019, portraying the depositor confidence in the Bank. The Retail business strength maintained by the Bank was the main contributor for the phenomenal overall deposit growth amidst challenging macro economic conditions.

The Bank was equipped with new funding from foreign investors against the backdrop of sovereign ratings being downgraded by many international rating agencies. A historical strong relationship and the Bank's unwavering financial performance convinced foreign investors to invest in the Bank without hesitation despite the prevailing uncertainty. The Bank received USD 11.25 million new funding from Micro, Small and Medium Enterprises Bonds S.A. managed by Symbiotics and was thus able to reduce maturity tenor mismatches and offset funding gaps that arose from repayments of several term borrowing installments during the year. Furthermore, the Bank raised Rs.820 million via Tier II Unlisted, Unsecured, Subordinated and Redeemable Debentures issued in July 2020, wherein the Issue was in the form of private placement.

Meanwhile, the Bank's net interest margins improved from 4.36% to 4.41% during the year, which is a commendable feat given the income loss due to loan moratorium, the industry-wide deterioration in credit quality and steps taken by the government to bring down market interest rates.

TOTAL DEPOSITS VS CASA



Shareholder's Funds

The Bank's total shareholder funds increased by 15.52% in 2020, with a growth of over Rs.2 billion compared to the previous year. The strong growth in shareholder funds in 2020 was mainly supported by the internally generated capital of Rs.2.05 billion and the net increase in revaluation surpluses on Land and Buildings of Rs.18.06 million.

Meanwhile, the Bank's Net Asset Value per Share as at 31st December 2020 stood at Rs.34.79 having increased from the previous year-end figure of Rs.30.12 amidst the record-breaking financial performance achieved. The Bank did not distribute cash dividends to shareholders in 2020 in view of building adequate capital buffers to support future growth and to meet forthcoming increased minimum capital requirements.

The Return on Equity of the Bank for the year 2020 of 14.36% remained among the highest in the industry, although the ratio slipped marginally by 14 bps due to the impact of COVID-19 and other unfavourable macro-economic conditions in 2020. In order to improve and maintain the momentum, the Bank is focused on improving the quality of credit thorough rigorous collection and recovery efforts, exploring ways of business development and control of costs.

Regulatory Capital

Common Equity Tier 1 Capital before adjustments of the Bank as at 31st December 2020 amounted to Rs.14.66 billion, while the Total Capital stood at Rs.17.01 billion by end of the year. The Bank requires nearly Rs.5.34 billion further capital to fulfill the balance requirement to elevate its capital to Rs.20 billion by end of 31.12.2022. The Board of Directors foresees that the above target could be met through a combination of internally generated funds of the Bank and infusion of fresh capital.

The Bank's both Common Equity Tier 1 (CET 1) Capital Ratio and Tier 1 Capital Ratio as at end of 2020 improved to 13.24% from 12.87% in the year before, mainly supported by the strong internal capital generation despite growth in risk weighted assets in 2020. As per the relief measures introduced by the Central Bank of Sri Lanka, all Non-Domestic Systemically Important Banks (Non D-SIBs) were permitted to release 50 basis points from the capital conservation buffers maintained to date. Both CET 1 and Tier 1 Capital Ratios as at 31st December 2020 stood well above the regulatory minimum requirements of 6.5% and 8.0% respectively after adjusting the extraordinary relief.

The Bank's Total Capital Ratio as at the end of 2020 stood at 15.74%, having improved from 14.31% in the previous year due to the growth in CET 1 capital and issuance of subordinated debentures amounting to Rs.820 million in July 2020. The regulatory minimum for Total Capital Ratio as at 31st December 2020 is 12.00% after adjusting for the extraordinary relief. Healthy capital ratios provide further room

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for business expansion while being a credit rating sensitive factor and demonstrate the Bank's capitalised level to tap internal and external funding sources.

Liquidity

Liquidity Coverage Ratios as at end of 2020 stood at 177.36% and 211.57% for Rupee and All Currency respectively, well above the statutory minimum requirement of 90%. The Net Stable Funding Ratio was 116.80% compared with the statutory minimum requirement of 90%.

Meanwhile, the Bank's Statutory Liquid Asset Ratios for Domestic Banking Unit and Foreign Currency Banking Unit stood at 27.83% and 42.36% respectively at the end of 2020, largely supported by excess liquidity boosting the deposit book despite the low interest regime that prevailed in the financial system.

FUTURE OUTLOOK

Despite the low growth in the two years previously, Sri Lanka's economy is expected to rebound strongly in 2021 and sustain its growth momentum over the medium term, supported by the stimulus measures already in place and the effective implementation of the pro-growth policy proposals announced in the Government Budget 2021. The Government has acknowledged the need to promote economic sectors with higher growth and earning potential, and plan to introduce lending targets in the near future for selected sectors. Meanwhile the Asian Development Bank forecasts Sri Lanka's economic growth to recover moderately to 3.5% in 2021.

The large scale policy support provided by the Central Bank and the Government is expected to facilitate a fast recovery of economic activity in the near term, while growth-oriented policies are expected to sustain the recovery over the medium term. The lagged effect of extensive fiscal and monetary policy stimuli provided thus far, along with improved investor confidence due to the restoration of political stability and the implementation of the growth oriented policy agenda of the Government would support sustainable and equitable growth in the period ahead.

With the envisaged revival of economic activity in the ensuing period along with improved business confidence, the growth of credit flows to the private sector is expected to accelerate in the near term and stabilise thereafter. The large volumes of credit obtained by the public sector are expected to cause the growth of broad money (M2b) to accelerate in the near term. The growth of broad money is projected to stabilise at around 12.5% in the medium term mainly driven by the expansion in credit extended to the private sector. Low lending rates and adequate levels of liquidity in the market are expected channel funds to the private sector in the form of low-cost loans. The Central Bank expects credit to the private sector to expand by around 14% in 2021 and at least by around 12%-12.5% annually over the medium-term, thereby supporting the envisaged growth of the economy. To sustain envisaged revival, as per the available information sources it's likely that Central Bank will continue the prevailing accommodative monetary policy stance in 2021 as well.

Inflation expected to remain within the targeted range of 4% - 6% over the medium-term and inflation risks could emanate from exogenous factors such as increases in global petroleum prices and the possible improvement in global demand as well as pressures that could emanate from domestic supply-side factors. Low inflation, by helping to sustain the low interest rate regime, would bring down funding costs to both the Government and the private sector over the medium term.

The year 2020 was designated as the year of digital transactions. Unprecedented promotional activities are expected to carry out period ahead in the financial system to popularise digital payment mechanisms among the public. Adoption of digital payment platforms proved extremely useful during the pandemic.

Nevertheless, several challenges lie ahead for the economy. By end of 2020, Fitch Ratings had downgraded Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'CCC'. The downgrade reflects Sri Lanka's increasingly challenging external-debt repayment position over the medium term. In particular, a sharp rise in the sovereign debt to GDP ratio associated with the coronavirus shock and narrowing financing options have heightened debt sustainability risks. Fitch believes there are now increasing risks to Sri Lanka's ability to meet its external-debt repayments as reflected in its forecast of a steady decline in FX reserves in 2021 and 2022. The ratings agency notes that the operating environment for banks in Sri Lanka remains challenging and expects banks' financial profiles to come under stress. However the Central Bank's avail polices to promote exports, enhance domestic production, and reduce import expenditure are expected to help maintain the momentum of market purchases of foreign exchange by the Central Bank, supporting the external sector stability in the period ahead.

Nevertheless, the success of containing COVID-19 locally and globally remains critical in determining the pace and the magnitude of domestic economic recovery and revival in the period ahead.

BUSINESS REVIEW

Overview of Pan Asia Bank

The Bank's financial performance surpassed that of the sector as a whole, as it delivered the highest earnings from core banking operations year-on-year despite the outbreak of COVID-19. Core banking profits increased in addition to benefits facilitated by the one-off gain due to abolishment of taxes and gains from tax savings during 2020. Forecasting greater pressure on the corporate and SME sectors through 2020, the Bank tightened its lending policy early on in the year under review. This cautious approach mitigated any major impact on the Bank's Non-Performing Loan (NPL) ratios and instead enhanced the quality of its portfolio.

The retail arm made a significant contribution, supported by enduring customer relationships. In particular, Pan Asia Bank's 'Sammana' pension loans showed major growth during the year. Pan Asia Bank successfully sustained profitable growth despite the contraction in the economy and went on to record growth in advances reflecting business confidence in the organisation.

Pan Asia Bank achieved Rs.2.05 billion post tax profit despite making provision for loan losses. Many banks are faced with the issues of lower profits due to these moratoriums which affects internal capital generation adversly.

Business Review

Lending

Pan Asia Bank continued its prudent lending approach from the previous year into 2020 as well, considering that many small and medium businesses were severely impacted by the pandemic. The Bank had to also manage disbursements for the government-backed Saubhagya renaissance loans, which was done with great prudence. This proved to be a wise decision as when the second wave of the pandemic hit, due to our cautionary approach the Bank was not overly exposed. Instead we strengthened the collection and recovery teams and negotiated new installments etc. to ensure repayments. Pan Asia Bank's special loan scheme 'Sammana' for pensioners performed strongly during the year.

Deposits

Pan Asia Bank's high quality customer service levels and close engagement with customers led to an inflow of deposits even during the pandemic. Despite the low interest regime that prevailed through the period under review, Pan Asia Bank successfully attracted deposits which reflect its strong brand identity as a Truly Sri Lankan Bank that supports and safeguards its customers' assets. As a result, deposit mobilisation of Rs.18.54 billion was achieved during the year under review. The teams at all branches exerted a superhuman effort to mobilise low cost deposits while successfully managing to dilute the concentration risk with a diversified range of products. Realising the economic hardships being faced by customers during the lockdown, weak business confidence, job losses and salary cuts, our team adopted a compassionate and solution-centric approach towards customers.

Retail Banking

Increased focus on the retail banking segment was sustained from the previous year and proved to be highly prudent as the retail segment made a substantial contribution to the Bank's profitability in 2020. The 'Together We Rise' initiative has harnessed enthusiasm and commitment from the entire staff to engage with retail customers resulted in a successful year in terms of deposit mobilisation. The emphasis on marketing retail products despite the backdrop of the pandemic and the resultant economic slowdown helped in growing the Bank's advance book. During the year under review, retail products grew by as much as Rs.18.8 billion.

Sammana Product

The Sammana product is a specialised banking services package tailor-made to fulfill the needs of Government and Central Bank of Sri Lanka pensioners. Under this package, Sammana loan is the most popular feature, with Pan Asia Bank being the pioneer of any such government pensioner loan product in the country, having initiated the product as far back as 2013 with the intention of bringing back pensioners' skills and contribution to the economy by providing them with financial support. Another purpose of this product is to uplift the living standards of pensioners, offering them an opportunity to create additional income sources. The Sammana loan scheme enables a pensioner to divert his/her pension to Pan Asia Bank and obtain a loan of up to Rs.5 million, without need for guarantors. In an era where retirees were largely being considered as a liability by the society and overlooked by the financial sector, Pan Asia Bank come forward to offer the Sammana loan scheme specially for economically viable purposes. This product continued to perform well during the year under review.

Pawning

Pan Asia Bank continued to offer the highest returns to meet customer demand in difficult times by closely monitoring both local as well as international gold markets. The demand for pawning services increased in the second half of the year as customers facing economic hardships could securely pawn their gold assets for over the counter cash to fulfill emergency needs.

In a pioneering move, Pan Asia Bank, in partnership with a global banking entity, launched a superior Gold Loan product, which is a unique solution to protect the asset value of customers in fluctuating market conditions. Pan Asia Bank has devised this new product to mitigate the risk of asset devaluation due to market fluctuations. As a Truly Sri Lankan Bank, Pan Asia understands customers' aspirations, which is why it is offering this unique product proposition for the first time ever in Sri Lanka.

This unique product proposition stabilises uncertainty in gold prices, enabling the Bank to offer a higher value to customers whilst also protecting the asset value of their gold. Increasing the Loan-to-Value (LTV) on gold loans from the current 75% will be a huge relief to customer segments which have been struggling to secure loans in the current lending market scenario.

With this unique Gold Loan product, Pan Asia synergises its decades-long experience in the industry and in-depth knowledge of consumers jointly with the expertise of its global banking partner to deliver a product that has been absent in the market, thereby effectively rendering gold loans a safe haven product.

Trade Finance

The volume of trade routed through the Bank was severely impacted due to the government's initiative to curtail non-essential imports in addition to the lockdown situation in the bazaar area, preventing clients from continuing business smoothly, thereby affecting the documentary collection business to a greater extent. The Bank sustained its focus to strengthen existing relationships during the period. During the latter part of the financial year, importation of mobile phones and computer related accessories for the December season increased substantially, which compensated for the loss of business volumes up to a certain level during the early part of 2020. Although this phenomenon improved business levels slightly, desired targets were not achieved due to slowdown in the trade business as a result of import restrictions and the pandemic situation.

Corresponding Banking Relationships

Pan Asia Bank continued its focus on establishing valuable partnerships. During the year under review, several new relationships were forged with banks in European and Asian countries to facilitate trade business. Fresh initiatives were taken to establish new nostro accounts for several currencies which are expected to materialise during the first quarter of 2021. Further, rebates were also negotiated to boost foreign exchange income to a greater extent.

Leasing

During 2020, leasing activity slowed due to the outbreak of COVID-19 and the ensuing lockdowns which restricted mobility, while introduction of levies to stabilise the balance of payments position exacerbated the dismal prospects for leasing. In particular, the vehicle market was severely impacted by the government ban on vehicle imports. With the economic slowdown, leasing recovery was challenging, nevertheless Pan Asia Bank maintained a healthy Non-Performing Ratio (NPR) and grew its leasing portfolio by Rs.1 billion in the face of daunting challenges.

SMEs

The year 2020 was another difficult one for the Small and Medium Enterprise (SME) sector, already reeling from the impact of the Easter attacks in 2019. The COVID-19 pandemic affected the sector more than any other due to lockdown measures, with barely any new businesses coming into the industry as existing businesses struggled to survive.

The Bank's SME book contracted marginally due to drop in Overdrafts and Import Loans while there was substantial growth in Term Loans during the period. The drop in overdrafts was natural as the economy was on a downturn, with minimum business transactions, while the drop in trade finance facilities was due to government regulations in payment terms. Nevertheless, the Bank assisted affected industries in full by granting the government approved moratoriums and for some even beyond that considering the severity of the business breakdown. The bank also granted over Rs.2 billion facilities under the government financed 'Saubagya Renaissance' scheme to a wide array of affected businesses during the year.

Going beyond its obligation, Pan Asia Bank was one of the first to organise an online webinar for SME customers on 'Facing the new challenges caused by the COVID-19', which was attended by over 225 customers. Yet another webinar on the 'COVID-19 and the Legal Environment of Business', a seminar on labour relations was organised. Both programmes were held jointly with the National Chamber of Commerce, evidencing the Bank's efforts to support the Sri Lankan economy as a whole.

Moreover, the Bank's green lending initiatives continued and the main programme in the year was organised in partnership with the Pelwatte Sugar Company for their sugarcane farmers to install sprinkle irrigation facilities.

Corporate Banking

The global pandemic and weak economic conditions prevailing in the country during 2020 severely impacted corporate entities. As a result, the corporate banking advances portfolio contracted during the financial year under review as uncertainty in the market and granting of moratoriums for existing facilities prevented the acquisition of new clients during the first half of the year. As a result, more concentration was placed on recoveries. However, during the latter part of the year, new client canvassing commenced and disbursement of the same will materialise during the first quarter of 2021.

During the year under review, a new Institutional deposit mobilisation team was established to secure corporate deposits which contributed immensely to a substantial growth in the corporate deposit portfolio. In addition, with the lowering of the Statutory Reserve Ratio (SRR) by the Central Bank, market liquidity increased substantially and clients were switching banks for higher rates. Against this backdrop, the Pan Asia Bank Blue Chip Money Market savings account attracted many Non-Banking Financial institutions (NBFIs) who leveraged on the account to park excess liquidity instead of repo investments. This resulted in a substantial increase in Pan Asia's corporate banking deposits portfolio during the year under review.

Credit Cards

Credit Cards are an integral part of the Pan Asia Bank Business to drive value

BUSINESS REVIEW

to its loyal customer base. Taking a step to enhance customer experience further while simultaneously ensuring greater financial protection, Pan Asia Bank migrated to a state-of-the-art credit card management system.

During 2020, Pan Asia Bank launched a range of consumer promotions and customer engagement programmes to drive value to cardholders, however due to the unique circumstances created by the pandemic, some value additions could not be fully utilised by customers.

As part of its customer engagement drive, Pan Asia Bank sustained continuous communication via diverse channels, updating credit card holders on its latest initiatives while encouraging greater customer feedback. By keeping two-way communication channels open, the relationship with cardholders, especially during the lockdown period, was strengthened.

This was duly reflected in Pan Asia Bank expanding its credit card portfolio irrespective of lockdowns and other challenges during 2020, thereby helping the Bank grow its overall business portfolio. The Bank remains committed to growing the card portfolio by infusing greater value to cardholders in the future.

Information Technology

During the year under review, the Information Technology (IT) department implemented several new modules to both enhance customer experience as well as improve internal processes. Notable among these is the launch of a new and improved Corporate Internet Banking module that conforms to the stringent guidelines issued by the Central Bank of Sri Lanka for internet and mobile payment systems.

Further, the launch of a new credit card management system during the year reflects the Bank's focus on offering customers technology-backed convenience. This migration is being carried out in stages to minimise inconvenience to customers and is expected to be fully completed by March 2021.

The Bank also implemented an automated fraud guard to protect customers against Credit Card fraud while implementing Anti Money Laundering software in line with the directions received from the Central Bank.

During this challenging year, the IT team successfully facilitated staff to work from home securely, thus keeping the Bank operating without any downtime while staying safe.

Two Mobile ATMs - one with a mini branch - were launched during the lockdown period to provide cash and banking services to customers at their doorsteps. Going ahead, Pan Asia Bank is committed to follow a unique traditional-digital model that best suits customer needs.

Customer Service

As a Truly Sri Lankan bank, Pan Asia Bank strives to provide authentic and signature customer care -fulfilling customer needs with speedy service and innovative solutions. Customer care training forms a key pillar, with frontline staff undergoing stringent training sessions to enhance their skills. While it was difficult to conduct in-person training sessions due to lockdowns and work from home conditions, nevertheless the Bank delivered necessary training materials online to staff. The Together We Rise initiative continued to inspire and motivate staff to provide superior customer care to clients.

Customer Engagement

As a result of the restricted mobility for people during the year, Pan Asia Bank engaged customers on social media, targeting health and safety messages and promotional materials for its products on digital platforms, with positive feedback from target groups. Pan Asia Bank remains committed to offer an unparallelled customer experience via all customer touchpoints. Despite constraints during the year, several customer engagement initiatives were conducted virtually.

Marketing Strategy

In 2020, Pan Asia Bank celebrated its milestone 25th anniversary as the Truly Sri Lankan Bank, committed to serving the nation. During the year, Pan Asia Bank revitalised its brand positioning as 'The Truly Sri Lankan Bank' by launching strategic marketing and branch communications activities to integrate Pan Asia Bank's outreach.

The new brand strategy strengthened brand acceptance among a larger spectrum of Sri Lankan society - to recognise and relate to Pan Asia Bank as a household brand while perceiving it as a Truly Sri Lankan bank which understands and provides solutions far surpassing other financial institutions. Several new and innovative products were introduced during the year while revitalising the existing product suite to suit emerging needs of customers.

A variety of communications channels were harnessed during the year, targeting both external and internal customers to create awareness about the pandemic, safeguard customers and assist impacted customers to get back on their feet. Aligned to its positioning, Pan Asia Bank's nation-mindedness was demonstrated through many corporate social responsibility projects during the year.

Focus on digital channels was increased, with greater adoption of digital mediums both internal and external to engage with employees and customers, especially during the lockdowns.

More importantly, during 2020, Pan Asia Bank embarked on measuring the effectiveness of its marketing efforts and plans to scale this up to be one of the main business KPI's in time to come.

The year 2020 marked innovation and fresh thinking from Pan Asia Bank to cope with future challenges in 2021 and beyond as the Truly Sri Lankan Bank.

KEY PRODUCT OFFERINGS

CHAMPION SAVER

Higher returns with unlimited withdrawals

SALARY SAVER

Enjoy the best rewards on your salary !

DASKAM

Bonus deposit for every deposit you make

MITHURU MAX

The Children's Savings Account that offers amazing gifts

RISING FD

An investment that leaves no room for regret

BLUE CHIP MONEY MARKET SAVINGS ACCOUNT

Higher returns even on your short-term funds

KEY PRODUCT OFFERINGS

CURRENT ACCOUNTS

CURRENT ACCOUNTS

Experience everyday convenience

Sammana

SAMMANA

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

CREDIT CARDS

CREDIT CARDS

Amazing savings on your interest charges

PAN ASIA TARGET INVESTMENT PLAN

TARGET INVESTMENT PLAN

The investment plan that lets you save in monthly installments

PAN ASIA RAN LOAN

PAWNING

Highest value for your Gold

PAN ASIA NIVASA Home Loan

'NIVASA' HOME LOANS

Live like a king under your own roof

BUDGET+ LEASING

BUDGET LEASING

Stretch your affordability

PAN ASIA ASPIRE EDUCATION LOANS

'ASPIRE' EDUCATION LOANS

Unleash the power of knowledge

SME CREDIT FACILITIES

SME CREDIT FACILITIES

Help your business thrive

PAN ASIA PERSONAL LOANS

PERSONAL LOANS

Get what you deserve, now.

DEBIT CARD

DEBIT CARD

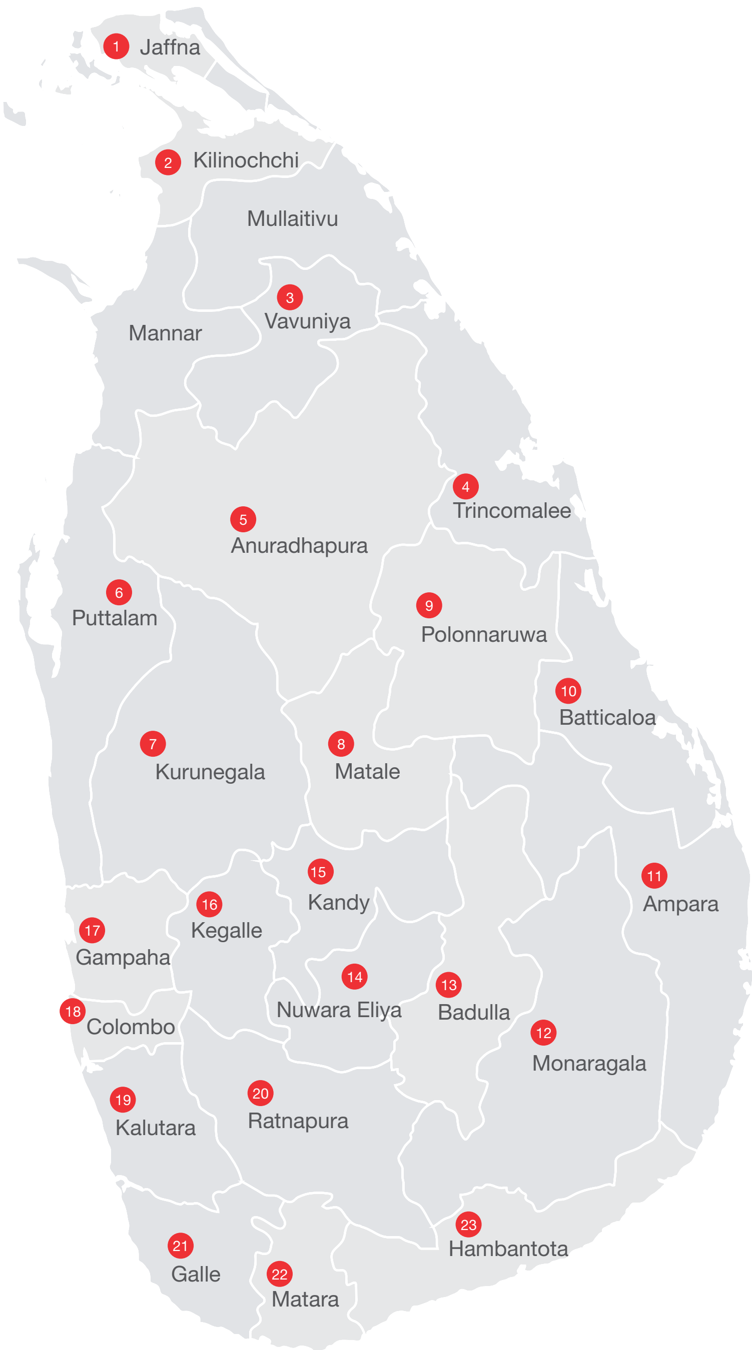
Global shopping card with greater security

INTERNET BANKING

INTERNET BANKING

For a cutting-edge banking experience

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
- Arayampathy
- Batticaloa

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 : 9.00 AM to 4.00 PM
Akuressa	072	No 54, Matara Road, Akuressa	Matara	041-4935855	041-2284677	Weekdays : 9.00AM to 4.00 PM
Ambalangoda	041	No 103, Galle Road, Ambalangoda	Galle	091-4943166	091-2258064	Weekdays : 9.00 AM to 4.00 PM
Ambalantota	053	No 155/1, Tissa Road, Ambalantota	Hambantota	047-4931850	047-2225056	Weekdays : 9.00 to 4.00 PM
Anuradhapura	032	No 49, Main Street, Anuradhapura	Anuradhapura	025-4976777	025-2234763	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Arayampathy	057	No.73b,73b 1/1, Main Street, Arayampathy East, Arayampathy	Batticaloa	065-4926901	065-2248468	Weekdays : 9.00 AM to 4.00 PM
Badulla	045	No 22A, Bank Road (Lower Kings Street), Badulla	Badulla	055-4976777	055-2225771	Weekdays : 9.00 AM to 4.00 PM
Balangoda	062	No 84, Barns Rathwatte Mawatha, Balangoda	Ratnapura	045-4928310	045-2289081	Weekdays : 9.00 AM to 4.00 PM
Bambalapitiya	009	No 329, Galle Road, Colombo 04	Colombo	011-4374055	011-2506825	Weekdays : 9.00 AM to 4.00 PM
Bandarawela	048	No 340/1A, Badulla Road, Bandarawela	Badulla	057-4976777	057-2233554	Weekdays : 9.00 AM to 4.00 PM
Battaramulla	063	No 123C, Pannipitiya Road, Battaramulla	Colombo	011-4343260	011-2885622	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Batticaloa	040	No 293, Trincomalee Road, Batticaloa	Batticaloa	065-4976777	065-2228486	Weekdays : 9.00 AM to 4.00 PM
Borella	031	No 996A, Maradana Road, Colombo 8	Colombo	011-4374207	011-2696461	Weekdays : 9.00 AM to 6.00 PM
Chilaw	036	No. 58, Colombo Road, Chilaw	Puttalam	032-4976777	032-2224756	Weekdays : 9.00 AM to 4.00 PM
Chunnakam	061	No 92, Dr. Subramaniyam Road, Chunnakam	Jaffna	021-4923422	021-2241889	Weekdays : 9.00 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 : 9.00 AM to 4.00 PM
Dam Street	019	No 22, Dam Street, Colombo 12	Colombo	011-4374130	011-2346052	Weekdays : 9.00 AM to 4.00 PM
Dambulla	049	Jayalanka Building, Kandy Road, Dambulla	Matale	066-4928970	066-2284844	Weekdays : 9.00 AM to 4.00 PM
Dankotuwa	083	No 17 and 19,Nattandiya Road, Dankotuwa	Puttalam	031-4937130	031–2265790	Weekdays : 9.00 AM to 4.00 PM
Dehiwala	015	No 104, Galle Road, Dehiwala	Colombo	011-4374077	011-2730624	Weekdays : 9.00 AM to 4.00 PM
Embilipitiya	038	No 49, New Town Road, Embilipitiya	Ratnapura	047-4976777	047-2261624	Weekdays : 9.00 AM to 4.00 PM
Galewela	071	No 201, Kurunegala Road, Galewela	Matale	066-4929970	066-2288320	Weekdays : 9.00 AM to 4.00 PM
Galle	025	No 32, Old Matara Road, Galle	Galle	091-4976777	091 2224635	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Gampaha	011	No 15, Rest House Road, Gampaha	Gampaha	033-4976777	033-2220048	Weekdays : 9.00AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Gampola	030	No. 29, Nuwara Eliya Road, Gampola.	Kandy	081-4944625	081-2353998	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Hatton	075	No 68, Co-Operative Square Building, Hatton	Nuwara Eliya	051-4932040	051-2225665	Weekdays : 9.00 AM to 4.00 PM
Hikkaduwa	084	299/C, Galle Road, Pannamgoda, Hikkaduwa.	Galle	091-4944956	0912274084	Weekdays : 9.00 AM to 4.00 PM
Homagama	076	No 381, High Level Road, Homagama	Colombo	011-4385740	011-2098484	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Horana	077	No 95, Ratnapura Road, Horana	Kalutara	034-4941060	034-2266566	Weekdays : 9.00 AM to 4.00 PM
Ja-Ela	066	No. 71, Negombo Road, Ja-Ela	Gampaha	011-4344149	011-2232824	Weekdays : 9.00 AM to 4.00 PM

BRANCH NETWORK

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Jaffna	037	No 570, Hospital Road, Jaffna	Jaffna	021-4976777	021-2221485	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kadawatha	026	No. 143/H, Kandy Road, Kadawatha	Gampaha	011-4374185	011-2925192	Weekdays : 9.00 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 : 9.00 AM to 4.00 PM
Kaduwela	081	No 508/4,Avissawella Road,Kaduwela	Colombo	011-4328295	011-2538552	Weekdays : 9.00 AM to 4.00 PM
Kalmunai	042	No 100 & 104, Batticaloa Road, Kalmunai	Ampara	067-4976777	067-2225590	Weekdays : 9.00 AM to 4.00 PM
Kalubowila	047	No 46A, S D S Jayasinghe Mawatha, Kalubowila	Colombo	011-4374254	011-2828338	Weekdays : 9.00 AM to 4.00 PM
Kalutara	033	No.219/3, Galle Road, Kalutara South	Kalutara	034-4976777	034-2221258	Weekdays : 9.00 AM to 4.00 PM
Kandy	005	No 123, D S Senanayake Veediya, Kandy	Kandy	081-4976777	081-2232994	Weekdays : 9.00 AM to 4.00 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 : 9.30 AM to 6.00 PM Saturday : 9.30 AM to 6.00 PM Sunday :10.00 AM to 6.00 PM
Katugastota	020	No 57, Kurunegala road, Katugastota	Kandy	081-4946135	081-2500362	Weekdays : 9.00 AM to 4.00 PM
Kegalle	027	No 107 ,Main Street, Kegalle	Kegalle	035-4976777	035-2221018	Weekdays : 9.00 AM to 4.00 PM
Kekirawa	067	No 91 & 93, Main Street, Kekirawa	Anuradhapura	025-4928934	025-2264598	Weekdays : 9.00 AM to 4.00 PM
Kilinochchi	043	No.161,Kandy Road, Kilinochchi	Kilinochchi	021-4925952	021-2280075	Weekdays : 9.00 AM to 4.00 PM
Kiribathgoda	054	No 67, Makola Road, Kiribathgoda	Gampaha	011-4376061	011-2911041	Weekdays : 9.00 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 : 9.00 AM to 4.00 PM
Kollupitiya	003	No 450, Galle Road, Colombo 03	Colombo	011-4667022	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 : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kottawa	080	No 364/11, High level Road, Kottawa	Colombo	011-4324145	011-2172950	Weekdays : 9.00 AM to 4.00 PM
Kuliyapitiya	046	No 74 Kurunegala Road, Kuliyapitiya	Kurunegala	037-4943733	037-2284141	Weekdays : 9.00 AM to 4.00 PM
Kundasale	058	No 248, Digana Road, Kundasale	Kandy	081-4951644	081-2424624	Weekdays : 9.00 AM to 4.00 PM
Kurunegala	012	No 22, Suratissa Mawatha, Kurunegala	Kurunegala	037-4976777	037-2221731	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Maharagama	023	No 173/1, Highlevel Road, Maharagama	Colombo	011-4374163	011-2838397	Weekdays : 8.00 AM to 8.00 PM Saturday : 8.00 AM to 8.00 PM Sunday : 8.00 AM to 8.00 PM
Malabe	035	No 410/2, Athurugiriya Road, Malabe	Colombo	011-4374218	011-2744405	Weekdays : 9.00 AM to 4.00 PM
Matale	039	No 165, Trincomalee Street, Matale	Matale	066-4976777	066-2223007	Weekdays : 9.00 AM to 4.00 PM
Matara	013	No 45B, Anagarika Dharmapala Mawatha, Matara	Matara	041-4976777	041-2231362	Weekdays : 9.00 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 : 9.00 AM to 4.00 PM
Minuwangoda	069	No 42, Veyangoda Road, Minuwangoda	Gampaha	011-4335770	011-2295929	Weekdays : 9.00 AM to 4.00 PM
Monaragala	059	No 25, Bus Stand Road, Monaragala	Monaragala	055-4929312	055-2277223	Weekdays : 9.00 AM to 4.00 PM
Moratuwa	024	No. 517,Galle Road, Rawathawatte, Moratuwa.	Colombo	011-4374174	011-2641354	Weekdays : 9.00 AM to 4.00 PM
Narahenpita	021	No 526, Elvitigala Mawatha, Colombo 05	Colombo	011-4374141	011-2368667	Weekdays : 9.00 AM to 4.00 PM

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Nawala	079	No 162, Nawala Road, Nugegoda	Colombo	011-4322814	011-2853043	Weekdays : 9.00 AM to 4.00 PM
Negombo	010	No 199, St. Joseph's Street, Negombo	Gampaha	031-4976777	031-2231259	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Nelliady	056	No 208A, Jaffna Road, Nelliady	Jaffna	021-4923164	021-3734879	Weekdays : 9.00 AM to 4.00 PM
Nugegoda	008	No 132C, High Level Road, Nugegoda	Colombo	011-4374044	011-2828228	Weekdays : 9.00 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 : 9.00 AM to 4.00 PM
Panadura	017	No 506, Galle Road, Panadura	Kalutara	038-4976777	038-2243053	Weekdays : 9.00 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 : 9.00 AM to 4.00 PM
Peradeniya	051	No 767, 769 & 769/11,Sirimawo Bandaranayake Mawatha, Kandy	Kandy	081-4951180	081-2232441	Weekdays : 9.00 AM to 4.00 PM
Pettah	004	No 64, Keyzer Street, Colombo 11	Colombo	011-4374022	011-5363652	Weekdays : 9.00 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 : 9.00 AM to 4.00 PM
Piliyandala	055	No 107, Horana Road, Mampe, Piliyandala	Colombo	011-4376251	011-2604070	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Puttalam	064	No 116A, Kurunegala Road, Puttalam	Puttalam	032-4929663	032-2267967	Weekdays : 9.00 AM to 4.00 PM
Rajagiriya	006	No 468, Kotte Road, Rajagiriya	Colombo	011-4374033	011-2866823	Weekdays : 9.00 AM to 4.00 PM
Ratmalana	050	No 446, Galle Road, Ratmalana	Colombo	011-4374261	011-2738840	Weekdays : 9.00 AM to 4.00 PM
Ratnapura	007	No 37, Bandaranayake Mawatha, Ratnapura	Ratnapura	045-4976777	045-2231848	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Tangalle	074	No 3, Annapitiya Road, Tangalle	Hambantota	047-4929626	047-2241215	Weekdays : 9.00 AM to 4.00 PM
Thalawathugoda	068	No 351/E, Pannipitiya Road, Thalawathugoda	Colombo	011-4344650	011-2796016	Weekdays : 9.00 AM to 4.00 PM
Trincomalee	073	No 459, Dockyard Road, Trincomalee	Trincomalee	026-4925525	026-2225700	Weekdays : 9.00 AM to 4.00 PM
Vavuniya	034	No 14, 2nd Cross Street, Vauniya	Vavuniya	024-4976777	024-2225444	Weekdays : 9.00 AM to 4.00 PM
Warakapola	070	No 139, Kandy Road, Warakapola	Kegalle	035-4928777	035-2267544	Weekdays : 9.00 AM to 4.00 PM
Wattala	016	No. 218, Negombo road, Wattala	Gampaha	011-4374088	011-2945104	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Weligama	085	204, Hettiveediya, Weligama.	Matara	041-4933116	041-2252595	Weekdays : 9.00 AM to 4.00 PM
Wellawatte	029	No. 135, Galle Road, Colombo 06	Colombo	011-4374196	011-2362399	Weekdays : 9.00 AM to 6.00 PM
Wennappuwa	028	No 6, Chilaw Road, Wennappuwa	Puttalam	031-4934870	031-2249556	Weekdays : 9.00 AM to 4.00 PM
World Trade Centre	001	Level 2, East Tower, World Trade Center, Echelon Square, Colombo 01	Colombo	011-4976777	011-2346053	Weekdays : 9.00 AM to 4.00 PM

CORRESPONDENT BANKS

1. CANADA
- Bank of Montreal
- The Bank of Nova Scotia
- Royal Bank of Canada
- Toronto Dominian Bank
- 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.
- Credit Agricole CIB
- Citibank N.A.
- HSBC Bank USA, N.A.

3. PERU
- Scotia Bank Peru S.A.A.

4. CHILE
- Banco Santander Chile

5. BRAZIL
- Banco ABN Amro SA

6. IRELAND
- Danske Bank A/S

7. UNITED KINGDOM
- Arab National Bank
- Bank of Ceylon (UK) Ltd.
- Habib Bank Zurich PLC
- Mashreq Bank PSC
- Shinhan Bank, London Branch
- Standard Chartered Bank

8. FRANCE
- Union De Banques Arabes ET Francaises

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

10. GERMANY
- American Express Bank GMBH
- Deutsche Bank AG
- Landesbank Hessen – Thueringen Girozentrale
- Standard Chartered Bank AG
- Joh. Berenberg, Gossler UND CO. KG
- Commerzbank AG

11. DENMARK
- Danske Bank A/S

12. ITALY
- Intesa Sanpaolo S.P.A
- UBI Banca S.P.A.
- Credit Agricole Friuladria SPA
- Banca Popolare Di Vicenza Scparl
- Cassa Di Risparmio Di Carrara
- Cassa Di Risparmio DI Padova E Rovigo S.P.A.
- Banca Ubae SPA

13. CZECH REPUBLIC
- Unicredit Bank Czech Republic and Slovakia, A.S.

14. SWEDEN
- Danske Bank Sverige Filial

15. SERBIA
- Unicredit Bank SRBIJA A.D

16. ROMANIA
- Unicredit Bank SA

17. EGYPT
- Mashreq Bank

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

19. TURKEY
- ICBC Turkey Bank A.S.

20. SOUTH AFRICA
- State Bank of India
- Absa Bank Ltd.

21. ZIMBABWE
- Standard Chartered Bank Zimbabwe Ltd.

22. ZAMBIA
- Standard Chartered Bank Zambia PLC

23. KENYA
- Dubai Bank Kenya Ltd.
- EABS Bank Ltd.
- Standard Chartered Bank Kenya Ltd.

24. ISRAEL
- Israel Discount Bank Ltd
- Mercantile Discount Bank Ltd.

25. JORDAN
- Standard Chartered Bank

26. SAUDI ARABIA
- Al-Rajhi Bank
- Bank Al-Jazira

27. KUWAIT
- National Bank of Kuwait S.A.K.P.
- Kuwait Baharain International Exchange Company KSC
- Doha Bank

28. BAHRAIN
- Standard Chartered Bank

29. QATAR
- Standard Chartered Bank
- Mashreq Bank
- Doha Bank

30. UNITED ARAB EMIRATES
- Commerz Bank AG
- Emirates Islamic Bank
- Habib Bank AG Zurich
- Habib Bank Ltd.
- Mashreq Bank PSC
- Standard Chartered Bank
- UAE Exchange Centre LLC
- Bank Saderat Iran
- National Bank of RAS AL Khaimah
- Doha Bank

31. SEYCHELLES
- Bank of Ceylon

32. PAKISTAN
- Dawood Bank Ltd.
- MCB Bank Ltd.
- Standard Chartered Bank (Pakistan) Ltd.
- Summit Bank Ltd.
- Habib Metropolitan Bank Limited

33. MALDIVES
- Bank of Ceylon
- Bank of Maldives PLC.

34. 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.
- Mizuho Bank Ltd.
- Doha Bank

35. NEPAL
- Himalayan Bank Ltd
- Laxmi Bank Ltd.

36. RUSSIA
- Unicredit Bank AO

37. BANGLADESH
- Islami Bank Bangladesh Ltd.
- Mercantile Bank Ltd.
- Bank Asia Ltd.
- Standard Chartered Bank

38. CHINA
- Bank of China
- Commonwealth Bank of Australia
- Deutsche Bank (China) Co. Ltd.
- Qilu Bank Co., Ltd.
- Laishang Bank Co. Ltd.
- OCBC Wing Hang Bank (China) Ltd.
- Standard Chartered Bank (China) Ltd.
- Zhejiang Tailong Commercial Bank
- Shinhan Bank (China) Ltd.

39. THAILAND
- Kasikornbank Public Company Ltd
- Standard Chartered Bank (Thai) PCL
- United Overseas Bank (Thai) Public Company Ltd

40. MALAYSIA
- Deutsche Bank (Malaysia) Berhad
- Standard Chartered Bank Malaysia Berhad
- HSBC Bank (Malaysia) Berhad

41. SINGAPORE
- Calyon.
- Commerzbank AG,
- Credit Agricole CIB
- DBS Bank Ltd
- 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 (Singapore) Ltd.
- Citibank N.A.
- Union De Banques Arabes ET Francaises - Singapore
- HSBC Limited

42. CAMBODIA
- ANZ Royal Bank of Cambodia Ltd.

43. VIETNAM
- ANZ Bank (Vietnam) Limited
- Standard Chartered Bank (Vietnam) Ltd.
- HSBC Bank (Vietnam) Ltd.

44. HONG KONG
- Australia and New Zealand Banking Group Ltd.
- Bcithkhh Intesa Sanpaolo SPA
- Deutsche Bank AG
- Habib Bank Zurich (Hong Kong) Limited
- ICICI Bank Ltd.
- Standard Chartered Bank (Hong Kong) Limited
- UBAF (Hong Kong) Ltd
- Unicredito Italiano SPA
- Wachovia Bank NA
- Citibank- N.A.

45. TAIWAN
- ABN Amro Bank N.V.
- The Bank of New York Mellon
- Deutsche Bank AG,
- Standard Chartered Bank (Taiwan) Ltd.
- Wachovia Bank, NA
- DBS Bank (Taiwan) Ltd.
- Citibank Taiwan Ltd.

46. PHILIPPINES
- Citibank N.A.

47. INDONESIA
- Bank Negara Indonesia – PT (Persero)
- Bank NISP
- PT Bank OCBC NISP TBK
- Standard Chartered Bank

48. KOREA
- Kookmin Bank
- KEB Hana Bank
- Shinhan Bank
- Standard Chartered First Bank Korea Ltd.
- UBAF - Union De Banques Et Francaises
- Woori Bank, Seoul
- Citibank Korea INC

49. JAPAN
- Commerzbank AG
- National Bank of Pakistan
- Okazaki Shinkin Bank
- Overseas Chinese Banking Corp. Ltd.
- Resona Bank Ltd.
- Standard Chartered Bank
- UBAF - Union De Banques Arabes ET Francaises
- Mizuho Bank Ltd.
- The Iyo Bank Ltd.
- The Chiba Kogyo Bank Ltd.
- The Shizuko Bank Ltd.
- Mufg Bank Ltd.
- Wells Fargo Bank N.A.

50. AUSTRALIA
- Australia & New Zealand Banking Group Ltd.
- Commonwealth Bank of Australia
- National Australia Bank Ltd.
- St. George Bank A Division of Westpac Banking Corporation
- Citigroup PTY Ltd.

51. SOLOMON ISLANDS
- Pan Oceanic Bank

52. NEW ZEALAND
- ANZ Bank New Zealand Ltd.

CORPORATE SOCIAL RESPONSIBILITY

Our objective at Pan Asia Bank is to integrate economic, social and environmental sustainability into our value chain. In the process of achieving this mission, we engage in meaningful Corporate Social Responsibility (CSR) projects that have a positive impact on both the Community and the Environment. Positioned as the Truly Sri Lankan Bank, Pan Asia Bank engages in areas that benefit stakeholders the most and for lasting impact. The Bank achieves this aim with the active participation and support of its employees who generously give of their time and energy to serve the community.

Community

COVID-19 Response

As the 'Truly Sri Lankan Bank',Pan Asia Bank engages closely with the community within which it operates and is always one of the first corporate entities on the ground to assist victims in times of natural disasters and other crises. The Bank's social responsibility commitment goes beyond business, to reach out to the most deserving, at times when they need it the most. Pan Asia Bank strives to be a powerful ally for all those in need and to make a tangible difference in their lives.

The outbreak of the COVID-19 pandemic in Sri Lanka took the nation by surprise and banks and financial institutions, which are essential services, had to adapt fast to the evolving crisis. Pan Asia Bank was exceptionally quick to take several measures to ensure customers continued to receive its signature banking services despite the lockdown that followed. All the official health precautions against COVID-19 were taken to ensure safety of staff and customers. The well-being of customers is the foremost priority for the Bank and all operations were conducted in compliance with guidelines issued by the Government and the health authorities.

Enhancing Convenience for Customers

Customer convenience was prioritised by deploying Mobile Banking Units island-wide to fulfill immediate cash requirements for both customers and non-customers amidst lockdowns and restricted mobility. Customers and Public were informed in advance about the route of the mobile units, so that they could avail of the convenience of fulfilling their financial needs at their doorsteps.

Supporting SMEs

Sustaining valuable engagement with its base of SME customers, Pan Asia Bank kept up a dialogue with its SME customer base badly impacted by the pandemic. The Bank even organised a series of useful virtual webinars for more than 250 SME customers to address the issues they were facing due to the lockdown and other restrictions during the pandemic. Moderated by Naleen Edirisinghe, Snr. DGM of Pan Asia Bank,the webinars were live-streamed on the Bank's official Facebook page and attracted a large number of viewers. Focused on the theme, 'Revitalising the Small & Medium Enterprises', and conducted by Dr. Nirmal de Silva, the sessions offered technical and marketing inputs to participants.

This was Pan Asia Bank's way to support its SME customer base by offering strategic perspectives and solutions to get their businesses back on track. Offering advice from survival to growth, the webinars showcased the need for business owners to analyse their business model in light of the pandemic and make required changes to suit the present business climate in the best way possible to gear for growth.

Pan Asia Bank is committed to support SMEs irrespective of their scale - big or small - as it considers them to be the lifeblood of our economy. For this purpose, the Bank continues to strengthen its regional presence and deploys more resources to support these segments. Pan Asia Bank identifies SMEs and then supports them through low cost funding and technical and business management skills.

Inspiring Creativity

Nurturing its customer base through a difficult year, Pan Asia Bank innovated creative ways to boost spirits and keep morale high. In order to encourage creativity and positivity amongst children forced to stay home due to the pandemic, an art competition on the theme, 'Saluting frontline workers - spearheading the nation's battle against the disease' was organised by the Bank.

Promoting a Culture of Knowledge

Accelerating its efforts to improve educational facilities at schools, seven branches under the Southern area of Pan Asia Bank together with the Area Office successfully completed a CSR project contributing to the Wawewaththa Primary school and

Omalpe Maha Vidyalaya in Embilipitiya. The staff at the seven branches willingly volunteered. This initiative promotes the reading habit amongst students, many of whom lack access to good books in their homes due to poverty.

Environment

Sustainability is ingrained into our DNA. Pan Asia Bank undertakes many social and environmental sustainability projects to strengthen communities and contribute to the enrichment of the environment. It is one of the leading players in green lending in Sri Lanka. The Bank was recognised as the 'Best Green Bank' by the reputed Global Banking and Finance Review for 2020 recently.

Gaining Global Recognition

One of the Bank's key achievements has been to occupy the pole position in the industry as a pioneer promoter of green financing in Sri Lanka, becoming the proud recipient of the first USD 7.75 million Green Bond launched by the Switzerland-based Symbiotics, the leading market access platform for impact investing. Being awarded this bond at such a turbulent time in the global economy, is a testament to the trust and confidence Symbiotics and SEB have placed in Pan Asia Bank and its commitment to green financing. Sri Lanka's agricultural sector is in urgent need of adoption of sustainable practices and the Bank is at the forefront of green financing in the country.

Committed to adding value to its vast SME base of customers, Pan Asia Bank utilises green financing to support and promote local agriculture with special emphasis on encouraging use of indigenous seeds, sustainable agriculture, renewable energy and energy efficiency projects.

In the previous year, Pan Asia Bank was also awarded the prestigious 'Global Climate Partnership Award' by The Global Climate Partnership Fund (GCPF), one of the world's largest climate funds which recognises outstanding performance and impact across categories such as capacities and skills, institutional capacities and green lending offerings, as well as outstanding energy efficiency or renewable energy projects.

Extension of Sustainable Irrigation for Sugarcane Cultivation

In keeping with its mission to promote green financing, Pan Asia Bank put forward a proposal to the GCPF to commission a feasibility survey by Hector Kobbekaduwa Agrarian Research Training Institute (HARTI) with the assistance of Lanka Sugar Company Pelwatte (LSC), which revealed that the yield component for sugarcane farmers in Moneragala could be increased to a considerable extent by providing proper irrigation systems. According to the feasibility study, the yield component per hectare 55- 60 MT could be increased to 85- 90 MT with proper irrigation system – with the net return expected to be about Rs.150,000 per annum. Further the profitable yielding period of the crop would be extended from 3 years to 4 years. The primary objective of the project is to introduce skills of modern farming methods to rural farmers in order to enhance productivity and ensure sustainable agricultural practices. A modernised irrigation system has been introduced to meet the objective as well as to use energy efficiency practices through the proposed irrigation system.

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Under the guidance of Sustainability Development Unit of Pan Asia Bank, an irrigation project was launched from its Monaragala Branch for the farmers who have registered with Lanka Sugar Company – Pelwatta. The Irrigation equipment and technology is provided by the BC Agro-tonics (Pvt) Ltd and the field level feasibility study, project appraisals and the financial evaluation carried out with the assistance of field staff of the Lanka Sugar Company. The irrigated cultivations will have agri insurance cover from the Agrarian Insurance Board which are specially designed for the project. Financial assistance is arranged through the Swashakthi Loan scheme with the lowest rates under Central Bank refinance with the recommendation of Small Enterprises Development (SED) Division attached to Ministry of Youth Affairs.

Haritha Sammana

Continuing its legacy of innovation and championing the green cause in Sri Lanka, the Bank launched 'Haritha Sammana', a special loan scheme for Green initiatives under its flagship product Sammana. This scheme was created leveraging on the US$ 7.75 million funds received from Switzerland-based Symbiotics' first-ever Green Bond, to further the Green cause in the country.

'Haritha Sammana' is a product extension of Sammana, a scheme which allows pensioners to lead a life of dignity and financial independence. The new product is aimed at Sammana customers to encourage those who are willing to start a Green project or to further develop such a project which they have already started. The loans granted range from a minimum of LKR 50,000 to a maximum of LKR 1 million ranging from 1 year to a maximum of 10 years.

By launching 'Haritha Sammana', the Bank expects to provide an opportunity for existing and new Sammana customer to avail of green financing to commence or enhance sustainable agriculture projects such as sustainable agriculture, climate smart inputs, use of indigenous seeds, solar energy and

other such projects. This product is also expected to empower the nation's SME sector while simultaneously uplifting the pensioner segment.

Laying Down Strong Roots for Future Generation

In commemoration of its 25th anniversary, Pan Asia Bank held an a tree planting ceremony at the north side of the Jethavanaramaya Stupa in Anurudhapura, the sacred historical temple. Thousands of Buddhist devotees and tourists annually visit eight sacred places in Anuradhapura, and Jethawanaramaya is one of the main religious destinations. Due to the dry climate which prevails in Anuradhapura district, most devotees and tourists suffer in the intense heat. As a little step to green the area, Pan Asia Bank has come up with this worthy initiative as its Corporate Social Responsibility to the society as the 'Truly Sri Lankan Bank'. The Bank ensured sustainability of the initiative by providing cages for these plants for their protection in the long run. The programme is initiated under Pan Asia Bank's Green Initiative, the 'Haritha Sammana' project.

The Director/CEO of Pan Asia Bank, Nimal Tillekeratne led the proceedings by planting the first sapling while Ven. Ihala Halmillewe Rathanapala, Chief Incumbent at Jethavanaramaya, Chief Guest, planted the second sapling to inaugurate the notable initiative to enhance greenery. At the ceremony, Pan Asia Bank planted and offered 100 medicinal trees with cages to the priests, with the aim of reaching another 500 medicinal trees with cover cages across the country. Sri Lanka's forest cover needs to be restored and as the Truly Sri Lankan Bank, Pan Asia Bank is making a significant contribution while also receiving accolades for its green lending efforts.

In addition, Pan Asia Bank carried out several other valuable tree planting programmes in partnership with other stakeholders across the country during the year.

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INTERNAL TALENT GROWTH

10%

ATTRITION REDUCED BY

68%

LEARNING & DEVELOPMENT HOURS

43,493

man hours

"Human Resources isn't a thing we do, it's the thing that runs our business"

- Steve Wynne -

At Pan Asia Bank, employees are truly considered the most valuable asset that the organisation nurtures by continually investing in them to realise their fullest potential, which has been proven year after year. In 2020 too, Pan Asia Bank recorded a resilient and historic performance amidst the turbulence caused by the pandemic which disrupted the banking and financial services sector. It is the employees who, through their skilled training and professionalism, have helped the Bank to overcome enormous challenges to sustain a record performance.

HR Strategy

A key pillar on which the Bank's organisational strategy rests is putting employees at the core of its operations. When an employee-centric culture is fostered, employees feel truly valued, involved in decisions and supported to achieve their full potential – and in turn give more of their ideas and effort to the business. This helped to deliver our business strategy and live the Bank's values,which translate into higher productivity, better customer service and stronger financial results. This culture at Pan Asia is aligned with the bank's overall strategy of establishing an innovative and high performance-based workplace that emphasise sustainability and ethical operations.

Flexible and Engaged Work Culture

The main aim behind creating an employee-centric culture was to give high priority to employee engagement. Further, in order to be in line with the safety guidelines arising due to the pandemic, 'Work from Home' concept was introduced during the year for certain segment of staff to maintain the health guidelines and for them to be safe. This helped us to continue uninterrupted business operation at the center and balance their work-life. The Bank wants to create a working environment that supports employee resilience and creativity, so they can thrive professionally and personally. Providing working conditions that are broad and inclusive will help us to reap the benefits of our diverse and talented workforce. In order to maximise the value of investment in people, recruitment, career development, training and employee engagement, focused strategies were implemented during the year under review.

Talent Acquisition

Talent acquisition strategies were defined and introduced during the year in line with the emerging new trends. With the use of LinkedIn and social media platforms as sourcing methods, the Bank was able to develop a strong employer brand which set the talent hiring process on a long-term path.

The previous strategy of acquiring young graduates and executives was slowed down during the year as the Bank has now formed a young talent pool trained to readily take up challenging executive functions in the years to come. Further the Bank was able to create a steady pool of

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applicants, with an up to-date data base if needed to recruit in future.

The main focus with regard to talent acquisition during the year 2020 was to pay attention on employee growth based on potentiality and competency to create a skilled workforce. Succession planning and building a leadership line for future has been on top of the agenda of the Bank's HR plan as it is keen on developing its next layer of leaders. As a result, few senior positions were filled up as successors to some Key Management Personnel. The skill, attitude and competencies were the main areas which were looked into when recruiting the successors.

New Joinee Engagement

A strong on-boarding process was introduced to welcome the newly-recruited to the Bank. This enabled them to feel comfortable and adapt swiftly to the new environment. To facilitate this, several initiatives were taken during the year. Close contact was maintained with the candidates from the point of giving the offer letter up to the date of joining, arranging the induction for all new joinees on the date of appointment, buddy programmes were implemented and buddies were assigned for all new hires and this enabled to check the pulse of new hires time to time. This programme will enhance the productivity and job satisfaction which would also lead as a retention strategy. The Bank hired only 43 new employees during 2020 due to low attrition.

Internal Mobility

The Bank mobilises resources by enabling its employees to embark on internal job opportunities before providing the same opportunities to external candidates. Outside talent is sourced only when suitable candidates cannot be found within the organisation. This leads to a happy and motivated workforce as the Bank invests in their

growth, looks beyond their current roles and provides them with more opportunities. Further, while this strategy enabled the bank to optimise its existing resources, it also demonstrated the Bank's efforts to enhance efficiency and productivity levels.

To ensure we have the right roles in the right locations, the Bank has re-evaluated the structure of each Business Unit during the year to effectively manage cadres and ensure existing staff has been optimally utilised. Some of the Head Office functions were decentralised during the year, thereby re-deploying employees into more productive areas, providing opportunities for those individuals to expand their horizons.

Further,138 existing staff were given promotions during the year and in order to develop the Branch Manager leadership, few Branch Managers were appointed internally. Also, most of the successors for key management positions too have been mapped by identifying the internal talent.

Performance Management and Evaluation

Effective performance management measures the progress made towards the achievement of the organisation's business objectives. Key Performance Indicators (KPI) setting is carried out at the beginning of the year and agreed with the respective employee. Pre-reviews are carried out ideally to provide a stepping-stone for

the employee and supervisor to identify and discuss areas where performance can be improved. It can also be an important opportunity for employee and manager expectations to be reinforced or clarified. Year-end final performance evaluations are carried out and based on ratings the employees are rewarded and feedback given in respect of their performance and areas of improvement. Performance Improvement Plans have been introduced during the year for identified poor performers.

In addition, performance of the entire branch network was evaluated by using the "Together We Rise" model which was introduced in the previous year and the performance of the support divisions were evaluated based on the KPIs set on business-centric measurable goals. This in turn helped the Bank as a whole to achieve set targets and record its all-time best performance.

Aligning HR policies with Business Needs

Some of the HR policies in the Bank were reviewed during the year in order to be in line with the changing environment and to keep pace with the developments and practices that takes place in the industry. 12 policies were reviewed and updated in order to align and to support current business requirements. The Recruitment and Selection Policy, Employee Retention Policy, Discrimination and Harassment Policy, Policy on JCC, Staff Housing Loan Policy, Learning and Development Policy, Grievance-Handling Policy, Disciplinary Management and Procedure Policy, Appointment of Consultants Policy, Staff Consumer Loan Policy, Whistle Blowing Policy and Attendance and Leave Management Policy were reviewed, updated and approved by the Board during the year.

Investment in Learning and Development

The world of work continues to change rapidly. Pan Asia Bank wants to equip employees with the skills and competencies they need to prosper in this increasingly fluid environment. Meeting this challenge was not an easy task this year as we had to limit the traditional classroom-based training programmes due to the pandemic situation. However, the COVID-19 pandemic triggered an abrupt transition and opened new ways of continued delivery of learning and skills development through online platforms and tools. The Bank as well as the employees were able to experience several benefits such as flexibility, productivity and convenience offered from the new training methods.

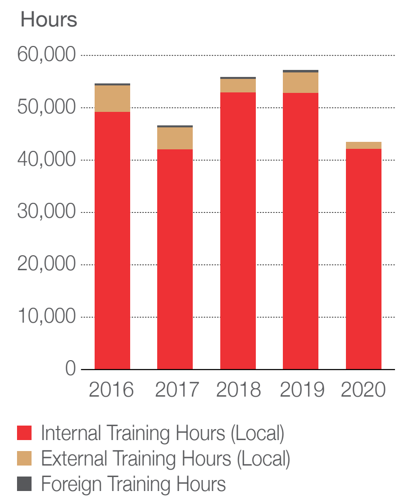
With this new shift, we rolled out several online trainings including the online promotion exam which was conducted for the eligible candidates and few classroom-based training sessions to develop the skills, knowledge and process improvement during the year in order for the employees to develop role readiness and capability building to give them the opportunity to move up the career ladder.

Training hours

During the year due to the pandemic situation prevailing in the country, total training hours were lesser compared to the previous years. Nevertheless, during the year under review, the Bank has conducted 43,493 training man hours covering 3,800 participants.

The breakdown of training in 2020 is depicted below:

TOTAL TRAINING HOURS



Online Promotion Examinations

The Bank set off a new trend in the banking industry by conducting internal staff promotion examinations online for the first time in history in partnership with Esoft Metro Campus. This was initiated with a view to strengthen the Bank's digitisation drive. The promotion examinations were held at Esoft centres in Colombo, Kandy and Galle under close supervision. The decision to hold the staff promotion examination online further complements the envisaged digital preparedness of the employees, helping them to excel within a digitalised banking environment while enabling them to adapt to the emerging business environment of the information age.

Online Training - Ratio Analysis in Branch Banking

The first online training session for Area Managers and Branch Managers was initiated during the year under review. This training session was initiated to enhance the knowledge in ratio analysis in branch banking and also to develop effective decision-making skills in frontline leaders. The training

Total Training Hours

Training Category	2016	2017	2018	2019	2020
Internal Training Hours (Local)	49,183	41,980	52,886	52,792	42,132
External Training Hours (Local)	5,042	4,270	2,661	3,993	1,337
Foreign Training Hours	451	374	360	432	24
Total Training Hours	54,676	46,624	55,907	57,217	43,493

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was facilitated by internal employees holding the required subject expertise, with appropriate practical examples to keep all the participants engaged and to share the knowledge effectively.

On line Training on Credit Certification Level – II

The Credit Certification Level – II programme, which was a continuation from the previous year continued in 2020 as well. 155 participants who were engaged in lending function in branch network and regional officers embarked on well-structured training ably supported by Senior Credit Managers of the Bank and industry experts/mentors. The programme focused on developing essential competencies needed to successfully identify, assess and structure profitable loans in the Bank. This was a well-structured programme which covered areas of Financial Analysis and Refinance. The Bank certified 38 credit officers during the year 2020.

Online Training on Compliance & FIU

This online programme was conducted for Branch Compliance Officers and hosted from the Head Office through Zoom. The training was conducted by our own internal resources who have specialised in this area.

Online Training for Call Centre staff on Soft skills Development

Soft skills pertaining to answering calls for Call Centre Agents was conducted for new staff recruited for the Call Centre. This training was hosted online and the trainer managed to keep the attention of the audience by raising frequent questions as well as practical scenarios and discussions.

E-Learning Courses

In 2020 also we were able to introduce two important e-learning courses on Compliance and Trade Finance to increase the knowledge of our branch

staff. The courses were assigned according to the staff grades which comprised of evaluation processes and methods to analyse and measure the knowledge gained by the employees.

Individual Branch Training on Service Excellence

In this competitive and ever-changing financial industry, the customer service delivery places a vital role in satisfying customers. Therefore, these skills of our employees should be enhanced and updated to be able to compete in the market positively. The frontline staff should be well focused to deliver a consistent excellent service to the customers. Hence, as a step forward, we initiated individual branch short training sessions on "Service Delivery" to encourage and improve the service levels of the Bank.

People Management Skills Development Programme

In a world where diversity in the workplace is increasing, People Management skills means more than just having the posture and the look of a boss. It is about forming and cementing relationships, providing the right motivation, keeping the team on track, understanding the needs of an individual and supporting subordinates to achieve their goals. Therefore, to support the Branch Managers to develop this essential skill, the Bank initiated People Management Skill Development programme for all Branch Managers in 2020.

Training in Statistics

This programme was initiated to enhance knowledge of financial analysis amongst employees attached to Treasury Middle Office, Credit Risk and Operations Risk departments. The core functions of these departments were, analysing the risks involved in the market, lending and banking operations respectively. The training was facilitated by a Senior Professor from a recognised university who is an expert in this subject and it was practically conducted using the Statistical Package for Social Science- version 23 (SPSS) & Minitab software testing with suitable case studies.

Management Trainee Programme

Management Trainees who were recruited during 2019 were assigned to branches in 2020 to get the branch exposure which would groom them with necessary skills and competencies required to take up the responsibility and be fully fledged business managers in future.

Skill Inventory

The Skill Inventory is an important part of HR Planning to maintain an agile workforce to gain competitive advantage in an unpredictable business environment and to satisfy ever-changing customer needs consistently. Hence, the initiative was taken for the first time to develop the Bank's skill Inventory in a well-structured manner. Initially, the expected/desired knowledge, skills and competency of each employee according to the grade and their job role was finalised. The completed branch/department wise matrices were forwarded to Branch Managers and Head of Departments for their careful assessment and to identify the gaps. Going forward, these skill gaps will be bridged through various learning methods such as trainings, mentoring, coaching, workshops, videos, e-learning courses, net-working, feedback, conferences, books, articles, etc. in order to prepare them to achieve business objectives and Bank's goals.

Effective Employee Relations

Pan Asia engenders a culture where its people feel free to speak up. Individuals are encouraged to raise concerns through the usual escalation channels. Listening to employees helps identify and work to close gaps between expectations and experiences. The management actively encourages employees to share their concerns and improvements to achieve the set goals. Through this, employees feel confident to participate in the decision-making process of the Bank by engaging in direct discussions with the CEO and top management. Ample opportunities were available for staff to engage in such discussions during the year through the following forums:

Joint Consultative Council (JCC)

The JCC meeting was held with the participation of representatives from the management and staff where an issue that impedes performance is discussed with a view to identifying sustainable solutions. The JCC meetings have produced productive outcomes as they have not only helped create awareness on procedures, processes and best practices, but also in resolving grievances and misunderstandings that affect business performance.

Coffee with CEO

Popular discussion forum, 'Coffee with CEO' was held with the participation of a wide cross section of staff members representing diverse departments/ branches. We have been successful in creating a platform for the staff to connect with the CEO thereby enabling them to share numerous work-related issues with him in order to identify practical solutions. The forum thus far has helped resolve many issues that impede personal and professional progress of staff members as well as performance issues of the Bank.

Employee Engagement

The main focus during the year under consideration was to build a strong employee engagement platform for all employees. By engaging employees and nurturing a positive experience for them at Pan Asia Bank, we believe we have created a happier working environment for them, thereby initiating the concept of 'Great Place to Work'. To facilitate this, an Employee Engagement Model (CARE) was introduced with the objective of building a high employee caring culture by having multiple types of employee delight activities and thereby increasing employee retention. It was clearly defined how the employees could be Connected, Engaged, Recognised and build Awareness.

In order to connect with the employees, several communication channels were introduced to all levels where they will be able to reach HR leaders directly by way of phone calls as their personal numbers were published, by creating WhatsApp groups for all grades and updates via emails. Any employee could share their grievances directly with the senior HR staff which will strengthen the staff grievance-handling process. Further, in order to listen to employees' grievances and concerns, a dedicated senior person from HR was appointed to carry out one-on-one sessions by visiting each branch and department and talking to each staff separately. Concerns raised at discussions were escalated to the top management which were resolved promptly to reduce dissatisfaction and enhance productivity. From the results obtained from staff, a happy index will be formulated to identify the level of happiness of the staff. One-

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on-one sessions were carried out for over 773 staff covering branches and departments during the year.

In order to build awareness among employees, the Bank's newsletter, Pan Asia Connect, has been published quarterly which consist of all the news relating to engagement activities carried out, the Bank's performance and any other special articles.

Recognition of employees were done by way of issuing appreciation letters, recognising long serving employees and sending personalised birthday wishes to each staff member on their birthday via email and sharing the birthday message with all staff in the Bank.

During the year under review, multiple levels of employee activities were carried out to create a friendly and pleasant working culture. These activities helped them to relax and unburden daily work pressure, strengthen team interactions and enjoy each hour they spent in the Bank.

The participation rate of the following activities was very high which indicates that the employees have taken part in these activities enthusiastically.

Celebrating 'Thai Pongal' with a colourful celebration

The 'Thai Pongal' festival was celebrated, joining millions of Hindu devotees spread across the world in celebrating this culturally significant event. This initiative yet again reflects the Bank's commitment to promote multicultural values among its diverse stakeholders, including staff members, customers and the general public. A large group of staff members irrespective of their religious inclinations joined in the festival celebrations this year by actively taking part in the rituals associated with this event, signifying the mutual respect towards faiths, religions and ethnicities of the Bank's diverse workforce.

Movie Night – an all new cinema experience

'Movie Night' is an endeavour that is aimed at creating a platform for the staff to release their stress and share some time together with their colleagues in an informal setting. To this end, 'Movie Night' not only delivers all the fun of a cinema experience but helps bring staff members from cross-functional areas together, thus enhancing employee engagement.

Pan Asians exposed to a heart-healthy session

Heart disease is fast jeopardising the lives of many, therefore, a useful awareness programme on heart-related diseases was organised. The session was conducted by a famous cardiologist from a leading private hospital. The awareness session was well attended with staff showing a keen interest in understanding the factors that help prevent heart diseases including guidance on lifestyle changes to ensure a heart-healthy lifestyle.

'Health Screening Campaign' to promote 'healthy living'

With a view to promoting health and well-being among staff and families, a special Health Screening campaign was organised in collaboration with a leading private hospital to medically screen their staff and families, affording them an opportunity to undergo a free health check under the expert eyes of healthcare professionals.

Valentine's Day Contest to promote camaraderie

For the first time in its history, the staff celebrated Valentine's Day that falls on 14th February each year with an exciting competition enabling the staff of the Bank to choose their Valentine Prince and Princess through popular SMS voting system. The Bank has a predominantly young workforce and hence it is important to engage them through activities that are appealing to them.

Spreading the joy of reading with 'Day of Charity'

In a series of donations to deserving schools around the country, arrangements were made to donate over 2,700 books comprising pre-grade books, study/text books, exercise books, English and Sinhala novels, children's story books, religious books, dictionaries and more, thereby supporting the learning, education and personal development of students who are undergoing education at under-privileged schools. 'Day of Charity' was established in keeping with Pan Asia Bank's CSR agenda of creating a literate and enlightened society by providing tools of empowerment for under privileged communities.

Commemorating International Women's Day 2020 meaningfully

Pan Asia Bank joined millions of women and like-minded partner organisations spread across the world in celebrating the social, economic, cultural and political achievements of women by celebrating International Women's Day 2020 with a series of meaningful activities. The multipronged celebrations included a special presentation titled "Learn Success from the Proven" by Dinusha Bhaskaran, CEO, Vallibel One PLC. Female staff members were dressed in either White or Purple attire and submitted 'selfies' that depicted the celebrations at their respective

branches, thus creating excitement and visibility for this important day.

'Vesak Card Competition'

Despite the challenging circumstances posed by the quarantine lockdown, we were successful in coming up with an exciting means to celebrate this time-honoured festival by way of a 'Vesak Card Competition' through which staff members were invited to develop a Vesak greeting in the form of a creative postcard. The competition also enabled the staff members to showcase their creative talents as well as their thoughts on Lord Buddha's wisdom in the form of a 'wish' which portrays this sacred occasion.

Virtual Poson Bhakthi Gee

Though physically apart due to health regulations, Pan Asians from around the country came together as a close-knit unit to hold the Poson Bhakthi Gee recital virtually for the first time ever, thus continuing this longstanding tradition without any interruption despite challenges posed by the raging pandemic. Pan Asians from all parts of the island were combined to create a beautiful audio visual clip which was later posted on YouTube for mass viewing.

'Keep-it-green' campaign

'Keep-it-green' was a meaningful campaign to create awareness on the importance of planting trees as a means of protecting planet Earth for future generations. The project, which was launched to coincide with World Environment Day, encouraged staff to give back to the environment by planting a tree, thereby taking that important first step towards building a greener tomorrow. The initiative was embraced by all staff members who enthusiastically participated in the campaign by planting over 1,000 trees in and around the Bank branches, own homes, in and around the main hospitals, parks and temples, including at the 'Jethawanaramaya' temple premises in Anuradhapura.

Art Competition

Pan Asia Bank family, both staff and their children took part in an exciting

HUMAN CAPITAL

Art Competition with the aim of lifting their spirits and to create a forum to 'express' themselves. The children's competition spanned five age groups with each group receiving a specific topic while the staff was given the opportunity to paint under the theme 'Truly Sri Lankan heritage/culture'. The challenge was gladly accepted by everyone, with parents as well as children showcasing their creative prowess with some amazingly beautiful paintings.

'Theme day' to bring out corporate brand identity

A novel 'dress down' idea was introduced to the staff, requesting them to come dressed in smart casual outfits of Red, White and Black - the corporate colors of Pan Asia Bank, thus giving them an opportunity to experience the excitement, power and freedom associated with the Bank's brand identity. It indeed was a novel experience for the staff to express themselves in a professional, yet casual outfit that portrays the identity of the Pan Asia Bank family.

'Let's Go Healthy'

A 'Healthy food day' was organised with a view to creating awareness about 'healthy eating' among staff. Apart from encouraging staff to opt for healthy and balanced meals on this day, benefits and tips about healthy eating were also circulated in order to educate them on choosing healthy food options that make us feel great, help lose weight and boost our energy levels.

'Fly Fun' a roaring success

'Fly Fun' attracted an encouraging response from many kite enthusiasts present within the Bank who showcased their creative talents by designing unique and colorful kites around the theme, 'Truly Sri Lankan traditions' that complements well with Pan Asia Bank's corporate identity – 'Truly Sri Lankan Bank'. 'Fly Fun' was

also extended to outstation branches, enabling them to be part of this spectacular event. The sky over the Galle Face Green came alive as many beautiful kites of varied sizes, shapes and colors adorned the evening skies of Colombo during the exciting event organised for staff.

Literacy week

The success of an organisation starts with a workforce that's equipped and ready to learn and provides a foundation for better reading, writing and literacy skills. Keeping in line with the Literacy week in the month of September, the staff was requested to share read books among the colleagues.

Happy Hour – Reflection of a Happy Workforce

An exciting employee engagement exercise was carried out under the theme 'Happy Hour' to break the monotony of work while creating a platform for healthy engagement of its staff. 'Happy Hour' was a brief fun event aimed at staff where they could play any workplace game of their choice.

Children's day

Led by the aim of establishing "The Family-Friendly Workplace" concept, integrating employees' work and life, a creative and touching personalised Children's day greeting card was sent through post to all employees' children to feel the wonderful experience of receiving a card on a day dedicated to them.

'Planting a Tree'

As part of the Bank's 25th Anniversary celebrations, a special tree planting was organised under the theme, 'Plant a tree' in the Hanthane Forest Range, the Southern Expressway and in schools and public places across the island. After invoking the blessings of Maha Sanga, over 300 plants were planted in the Hanthane Forest Range. Over 500 plants were planted under this CSR campaign which was aimed at promoting a 'green future' in Sri Lanka while taking appropriate measures to ensure the long term sustainability for the benefit of the future generation.

Blood Donation Camp to commemorate 25th Anniversary

Another event was initiated and held at the Bank premises to mark the Bank's 25th Anniversary in a unique and more meaningful manner by organising a blood donation camp to contribute selflessly towards saving lives of fellow human beings, especially during this national hour of need. The camp was well-organised together with staff of the Blood Bank while enthusiastic staff members actively volunteered and donated blood.

Pan Asia Bank celebrates 25th Anniversary

Pan Asia Bank in October 2020 celebrated 25 years of service to the nation. The CEO and the members of the Corporate Management celebrated the anniversary by cutting a traditional Kiribath, while staff had their celebrations at their workplace. All staff members were attired with the new Corporate T-shirt introduced for the 25th Anniversary. The Director/CEO together with Chairman and the Board of Directors felicitated pioneering staff who joined the Bank in the year 1995.

Let's Light a Lamp and Make a Wish

On the day of the Diwali festival, the Bank staff as one team lit a lamp with their families at their residence at 7 pm and made a wish for peace, happiness and to end the COVID-19 pandemic in Sri Lanka and the world.

Pan Asia Bank 'Day of Charity'

A Day of Charity was held to mark the Bank's 25th Anniversary at 'Diri Daru Piyasa' Banadaragama, an Institute for "down syndrome children". The Bank sponsored the partitioning of classrooms which will help to make an ideal classroom environment for children.

One Team One Voice in Harmony

Unity in the workplace is a vital element for success. When employees can work together in a collaborative manner, it creates better workplace dynamics, encourages people to perform at

HUMAN CAPITAL

optimum levels. With this thought, all Pan Asians were invited to join in singing one carol as one team in one voice which created a sense of solidarity and loyalty.

Pan Asia Virtual Carols

Pan Asians despite the challenging situation caused by the quarantine lockdown, got together with their colleagues around the country and held Christmas Carols virtually continuing the tradition as done every year. An attractive audio visual clip was posted on social media for mass viewing showcasing their talents.

Deck the Halls, Feel the Christmas

Feeling the Christmas, getting united and brighten up the workplace with fairy lights, star-topped trees, decorated garlands and baubles will not only bring glamour, it also gave a chance for Pan Asians to experience the team bonding. A contest was initiated to recognise and reward the 5 best decorated places which added more excitement to this event.

Pan Asia Christmas Cyber sale

Seasonal sale is another popular activity among Pan Asians. However due to the limitations in the current Covid-19 pandemic situation, a Cyber Christmas sale was initiated. An array of products was offered at concessionary rates for staff and their families to purchase and to exchange gifts being a tradition during Christmas season.

Weekly Employee Welfare activities

Vegetable/Fruit stall

Fresh vegetables and fruits are made available for staff to purchase every Friday, which allows them to spend more time during weekends with their families.

Weekly Doctor Visits

Weekly doctor visits have been introduced to proactively support the health of employees and to increase engagement and improve productivity.

Counsellor

The workforce health gives a broader view of physical, mental, work and life components of health. Obtaining a service of a Counselor dedicated to the Bank is another proactive initiative taken during the year. Staff is free to contact the Counselor directly and obtain services.

RESPONDING TO COVID-19 PANDEMIC

The COVID-19 pandemic could be the most serious challenge to financial institutions in nearly a century. As the economic fallout spreads, the Bank has been forced to manage some big priorities that require concrete steps to reposition now while recalibrating for the future. The Bank is working to keep its distribution channels open, despite social distancing advice and supervisory and compliance functions that were never designed for remote work. The Bank is trying to manage revenue and customer expectations, despite low interest rates regime and growing pressure on consumers.

In achieving the above, the Bank has taken the following steps to mitigate or manage the risks arising from the continuation of the business in this new normal environment while safeguarding the interest of all stakeholders in line with its risk appetite level.

Employees' Health and Safety

The increase risk to the safety and welfare of the Bank's staff has been paramount concern during the COVID-19 pandemic. Split arrangements were made when staffs were called on onsite duties and remote access was granted when they performed duties from home in order to ensure uninterrupted services to our valued clients and business continuity. Board approved Work from Home (WFH) policy with appropriate & effective Information Security Management tools, was developed to implement this concept in a uniform manner across the Bank.

Branches were closed on need basis, in order to protect the staff and valued customers from any internal threats on spreading the decease and on the direction of the Central Bank of Sri Lanka and the government. All premises have been deployed with the health and safety equipment recommended by the relevant authorities.

Operational Resilience

At the beginning of the pandemic, the Bank had to respond quickly to changing circumstances. This increased the risk of introducing operational vulnerabilities into our processes and created general uncertainty over the stability of the micro economic factors.

With the prolonged impact from the disruptive waves of the pandemic, the Bank has strengthened the robust governance, processes, system and controls to mitigate the potential operational losses.

In the meantime, the Bank encouraged customers to use online and digital banking platforms to carry out their banking transactions and encourage them to register for online banking facilities by simplifying the registration processes. The Bank deployed mobile ATM Banking service in many parts of the country during the period of lockdown to take the services to the door steps of our valued customers. During the pandemic The Bank also introduced a Mobile Banking unit to meet the demand of the clients.

All efforts were made by the Bank to provide continues services to customers through branch network even during the curfew period with the unstinted support of the Board of Directors, Management and all staff of the Bank. Board of Directors and the Corporate Management team had many Meetings including of using virtual platforms to discuss and take appropriate timely action to ensure the business continuity during this difficult time.

Financial Strength

Even though several of stimulation packages were made available for businesses and individuals the depth and severity of COVID-19 related impact on the economy is uncertain.

In anticipation of the potential loan loss on customer portfolios the Bank has provided additional impairment provision by adjusting the Impairment model with reliable latest macroeconomic forecasts. The provision was based on the economic and industry stress factors, government stimulation packages including moratorium arrangements. The Bank continuously monitors lending portfolios with stress testing forming the basis for ongoing reassessment of provisioning level as the situation evolves. The Bank has deployed additional staff members for collection & recovery function in view of managing the stressed lending portfolios much effectively. The collection and recovery of facilities are being closely monitored by the top management and deliberated extensively at the Board and Board Committee levels.

Cyber Risk

There has been increase in cyber-crimes globally during COVID-19 pandemic as cyber criminals seek to gain financially from people's vulnerability, or exploit potential weakness introduced through rapid operational changes implemented by businesses. The Bank addressed this issue by deploying appropriate systems and monitoring tools and by educating staff and customers on cyber related activities.

Managing Market volatility

Several steps were taken by the Bank to manage the internal liquidity position of the Bank in line with the directions issued by the regulator. The level of the liquidity position has been closely monitored with enhanced scope including emerging stress testing scenarios. Market volatility is expected to continue in the current environment requiring ongoing close monitoring by the management.

Ongoing monitoring

The COVID-19 pandemic continues to evolve both locally and globally and will likely to present new challenges and risks in the short to medium term. The management and the Board of Directors continuously monitor the situation and formulate appropriate timely strategies to maintain financial strength of the Bank while ensuring due support to customers and the community during these challenging times.

RISK MANAGEMENT

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 and 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 defence'.

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 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 the intranet 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 the 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.

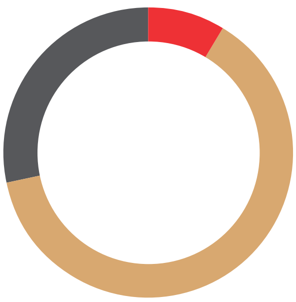
Sector Concentration

The Bank's sector concentration is in par with the widely-accepted norms, risk appetite and regulatory

RISK MANAGEMENT

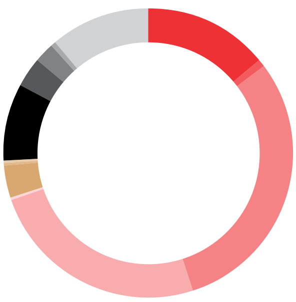
requirements directed by the regulator. Exposure to each sector is closely monitored by the Board Integrated Risk Management Committee against the predetermined limits. Exposures which exceed the predetermined limits are extensively deliberated at the meeting and corrective action is taken based on regulations 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.

SEGMENT WISE SEGREGATION



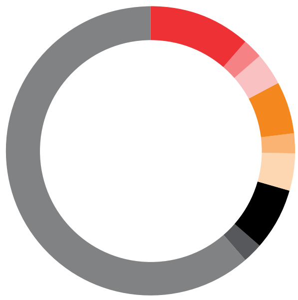
Corporate	8.77%
Retail	63.14%
SME	28.09%

SECTOR WISE CONCENTRATION



Agriculture, Forestry & Fishing	14.11%
Arts, Entertainment & Recreation	0.70%
Construction & Infrastructure Development	30.31%
Consumption	24.62%
Education	0.48%
Financial Services	3.50%
Health Care, Social Services & Support Services	0.21%
Information Technology And Communication Services	0.32%
Manufacturing	8.53%
Professional, Scientific & Technical Activities	3.45%
Tourism	2.29%
Transportation & Storage	0.61%
Wholesale & Retail Trade	10.87%

GEOGRAPHICAL CONCENTRATION



Central	11.42%
Eastern	2.37%
North Central	3.55%
North Western	5.83%
Northern	2.17%
Sabaragamuwa	4.27%
Sourthern	6.84%
Uva	2.28%
Western	61.28%

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 Assets and Liabilities Committee (ALCO).

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. 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.

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 of DGM- Treasury, Chief Financial Officer, Chief Risk Officer, Senior Manager Treasury - Settlements, Chief Dealer and 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. The committee meets based on specific requirement only.

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 such as net open position limit.
- Monitoring activities prescribed by CBSL such as Statutory Liquid Asset Ratio, Reserve Requirements etc.
- Monitoring of trading activities including take profit and loss limits.
- Marked to market calculations of trading and 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 2021 by further strengthening its market risk and 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.

RISK MANAGEMENT

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 and 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.
- The Operational Risk Management Unit provides continuous training to 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 the 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 Defence Model. Each line of defence describes a specific set of responsibilities for risk management and control framework.

The first line of defence 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 defence 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 Management 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-today work.

Due Diligence Tests on Activities Outsourced

In the provision of banking services, the Bank outsources few service activities related to 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 required internal controls and due diligence in obtaining outsourced services. Operational Risk Management Department acts as Outsourced Activities Monitoring Unit has been established centrally to overlook all outsourcing arrangements in the Bank. Annual review of all outsourced activities are carried out by the Manager Operational Risk with the support of respective business units.

Information Security Risk

The Bank recognises that information is a vital asset and how information is managed by achieving and maintaining aspects of Confidentiality, Integrity and Availability (CIA triad). Information security has significant impact on the delivery of critical Banking services and meeting regulatory and compliance requirements.

It is mandatory that information shall be maintained with the required level of confidentiality by enforcing applicable controls to prevent unauthorised access and misuse. Protected information shall be prevented from unauthorised alteration to maintain its integrity. Additionally, information systems and assets must be available when needed to authorised users, particularly during emergencies and times of crisis/disaster by maintaining well-tested Business Continuity Plan (BCP) and Disaster Recovery (DR) plan.

The Bank was successfully complied with the ISO 27001 surveillance audit after completion of one year certification cycle for adopting and implementing global standards and best practices to ensure the effectiveness, efficiency, confidentiality and integrity of its day-to-day IT operations. This certification further strengthens the confidence level of customers and regulators on the quality of the Bank IT and IT security, as well as its ability to manage confidential data and IT assets. The ISO 27001:2013 certification is the highest international benchmark for information security management, and the world's highest accreditation for information protection and security. The certification has proved the Bank's efforts to comply with local and international regulations regarding data protection, privacy and IT governance.

The Bank is also implementing 'Baseline Security Standards' (BSS) for most of its banking functions as an effective risk control mechanism.

The Bank has implemented corporate wide data classification framework. Data classification is a foundational step in cyber security risk management. It involves identifying the types of data that are being processed and stored in an information system owned or operated by the Bank.

The Bank has acquired and implemented a Security Information and Event Management (SIEM) system during the period under review that can serve as the core of a corporate information security strategy, as it centralises data coming from scattered security tools, normalises them and identifies real-life offences. Furthermore, it fills the gaping security holes in IT infrastructure left by traditional tools that are just not able to ensure all-embracing protection. It gives

RISK MANAGEMENT

the opportunity to reduce the risks associated with the human errors that can occur during manual monitoring and, therefore, guarantees a quicker and higher quality automated analysis of an IT environment by covering the core steps of a traditional risk management cycle and monitor the corporate network 24/7 by ensuring the visibility of the entire corporate IT infrastructure, identify current and potential vulnerabilities and incidents, as well as detect internal and external security threats, prioritise the most critical vulnerabilities that need to be addressed immediately to prevent serious security breaches and group separate offences to understand their nature, analyse comprehensive data on internal and external security events to determine real action vectors and keeps the bank's information security strategy up-to-date and respond promptly to detected offences to safeguard corporate assets and prevent major leaks of sensitive data/ information.

Strategic Risk

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

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

Solid Framework. Undeterred Commitment.

Pan Asia Bank's solid governance structure has built a steady framework - ensuring that our team is committed to serve the people to the best of their ability through any eventuality.

GOVERNANCE

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 principle 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 governance of the Bank and developing effective Governance Framework to meet challenges both in short and long term. The Board is committed to improving the systems to provide transparency and accountability, and initiate transformational changes whenever necessary by reviewing the systems continuously 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 rest of the 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 110 & 111

Board Integrated Risk Management Committee - Page 112

Board Human Resources and Remuneration Committee - Page 113

Board Nomination Committee - Page 114

Board Credit Committee - Page 115

Board Strategic Planning Committee - Pages 116 & 117

Board Related Party Transactions Review Committee - Page 118

Board Recoveries Committee - Page 119

Board IT Steering Committee - Page 120

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

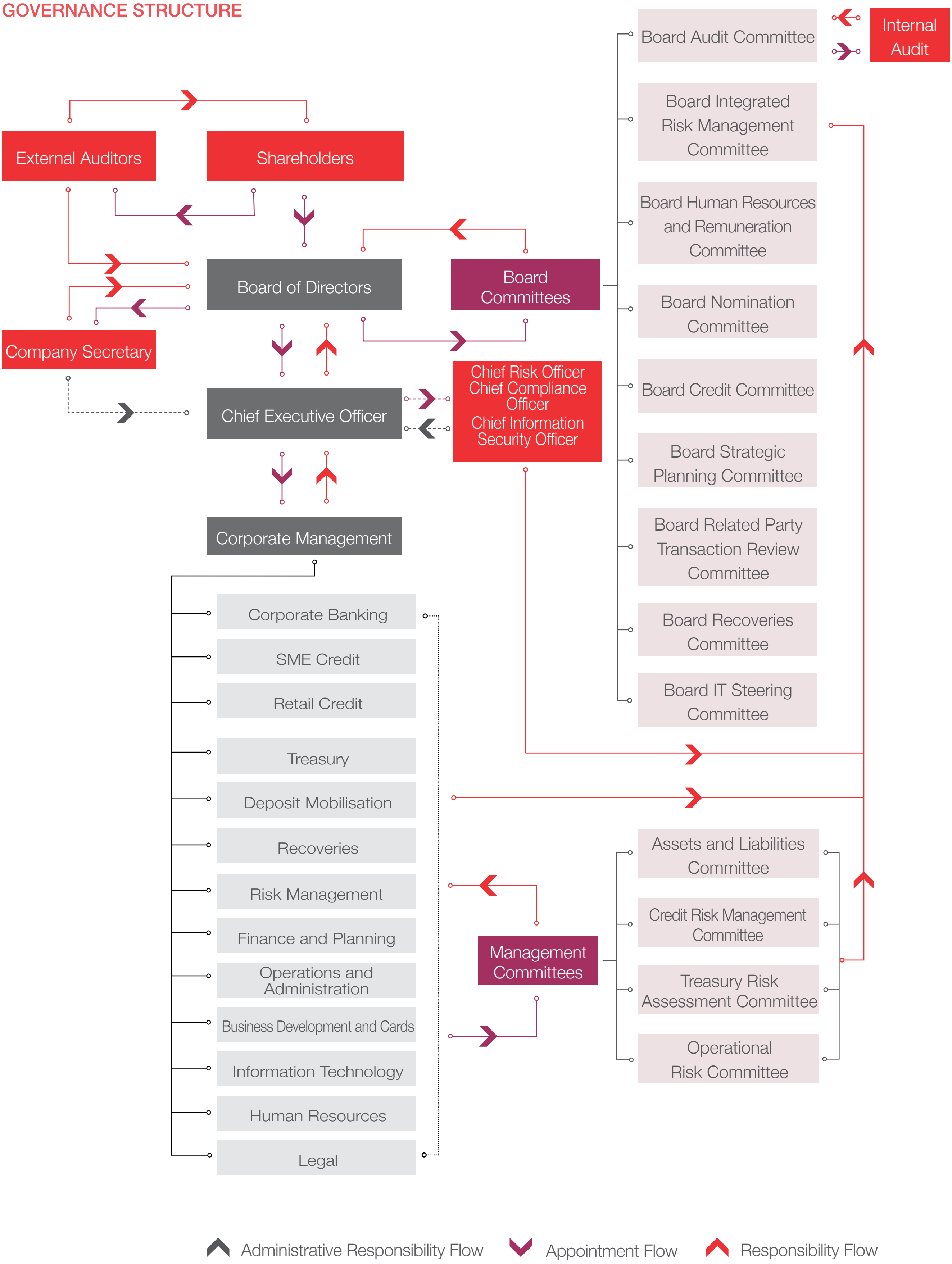
- Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks as amended subsequently
- Banking Act No. 30 of 1988 and Directions, Guidelines and Circulars issued under Banking Act
- Companies Act No. 07 of 2007
- Code of Best Practice on Related Party Transactions issued 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/Compliance Policies

Internal

GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE

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 a view of enhancing effective Corporate Governance practices, transparency and accountability.

Listed Banks are exempted from complying with CSE Listing Rules in relation to Corporate Governance 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 their procedures in respect of the year 2020 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 on page 109 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 to 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, 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 the Corporate Management are focused on promoting sustainability and profitable growth of the Bank. The Board approved strategic plan containing measurable goals for 2021-2024 period is in place. The business strategy is reviewed on a quarterly basis with updates. The Board approved the annual budget has been 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 risk stemming from the risk appetite of the Bank. Further, appropriate credit, market, operational, liquidity, strategic, information security and compliance strategies have been adopted 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	A 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. 01 of 2019 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. 01 of 2019 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. 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 for the Board of Directors 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 assessments of the Directors are attended to by the Directors annually. The Board assesses the effectiveness of its own governance practices on an annual basis through the Board performance evaluation checklist.
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. 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, Strategic Planning, Recoveries and IT steering 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 and 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 Chief 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 accordingly. The attendance of the Board and Board Committee meetings are given on page 106.
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	The Board Meeting Notice and Board Papers are circulated to Directors 7 days prior to the Board Meeting providing all Directors an 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	The Board Meetings have been duly attended by all the Directors as identified in page 106.
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 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.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
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.
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 from voting and taking part in discussions where issues or items pertaining to conflict of interest are being 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 Board is aware of the need to inform the Director of Bank Supervision prior to taking any decision or action, if the Bank is about to become insolvent or about to suspend payments to its depositors and other creditors. If such a situation arises, the Bank will duly inform the Director of Bank Supervision. However, such a situation did not arise during the year 2020. Through the Corporate Governance requirements, the Directors are compelled with the responsibility of informing the Director of Bank Supervision and making necessary public and other disclosures upon the occurrence of such an event.

Section	Principle	Degree of Compliance	Remarks
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 2020.
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 76 to 106 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.
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	08 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	07 out of 08 Directors are Non-Executive Directors hence, does not exceed one-third of the number of Directors of the Board as identified on page 106.
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 as identified in page 106.
a.	has direct and indirect share holdings of more than 1 percent of the Bank.	Complied with	No Director holds more than a 1% stake in ordinary voting share capital of the Bank.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
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 2020.
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 2020.
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 2020.
e.	represents a specific stakeholder of the Bank.	Complied with	None of the Directors represents a specific stakeholder of the Bank at present.
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.

Section	Principle	Degree of Compliance	Remarks
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 is also 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.
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 the Annual Report on page 106 "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 to fill casual vacancies during the year 2020.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
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.
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.
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, none of the Directors hold Directorships in more than 20 companies.
3(3)(iii)	A Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka appointed as a Director or a Chief Executive Officer of another licensed bank operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka.	Complied with	There were no Director or CEO appointed from another bank during the year 2020.

Section	Principle	Degree of Compliance	Remarks
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 or 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 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, Non-Executive, Independent Director continued as the "Senior Director". Required Terms of Reference have been approved by the Board.

CORPORATE GOVERNANCE

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 and that the Board works effectively and discharges its responsibilities while all the key & appropriate issues are discussed, in a timely 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. The 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.

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, Non Independent 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 Committees for Audit, Nomination, Human Resources & Remuneration, Integrated Risk Management, Credit, Strategic Planning, Related Party Transactions Review, Recoveries and IT Steering. All Board Committees submit minutes to the Board. Each Committee report is published in the Annual Report on pages 110 to 120.
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 the Audit Committee is a Non-Executive, Independent Director and a Fellow of the Institute of Chartered Accountants of Sri Lanka whose qualifications and experience are disclosed on page 23 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.

CORPORATE GOVERNANCE

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 its 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. Engagement Audit Partner was rotated since March 2019. 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, 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 Auditors on their independence, and that the audit is carried out in accordance with Sri Lanka Auditing Standards.

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.
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.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
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 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 judgments contained therein. The review focuses on the following; - Major judgmental areas - Any changes in accounting policies and practices - Significant adjustments arising from the audit - 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.
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. The related discussion minutes are recorded and maintained independently by the Company Secretary.
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.

Section	Principle	Degree of Compliance	Remarks
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 DGM –Internal Audit 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.
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.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
l.	The Chief Financial Officer, the Chief Internal Auditor 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 Deputy General Manager-Internal Audit and representatives of External Auditors attends monthly committee meetings. The CEO, Corporate and Senior Management personnel attend meeting upon invitation. The Committee met with External Auditors independently without the executive management being present on three 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 (iv) 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	(i) The details of the Committee are disclosed in the Annual Report, on pages 110 and 111. (ii) Details of attendance by individual Directors on page 106 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 Deputy General Manager- Internal Audit and records and keeps Minutes of the Committee Meetings.

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 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 113 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 Directors, Chief Executive Officer and Key Management Personnel are in place.
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 payments of performance-based incentives.
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 is excused when matters relating to him is being discussed.
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 are in place.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance	Remarks
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 are 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 Directors' and Chief Executive Officer's affidavits are tabled at the Nomination Committee for their recommendation & tabled at the Board meeting for approval prior to forwarding to Central Bank of Sri Lanka for approval to ensure that the Directors are fit and 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 a Non-Executive, Independent Director and two Non-executive, Non-Independent Directors. The Chief Executive Officer attends meetings by invitation.

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, the Chief Executive Officer, the Chief Risk Officer and the Chief Compliance Officer. The Committee is supported by Senior Manger II-Credit Risk, Senior Manager-Treasury Middle Office, Manager-Operational Risk & Integrated Risk and Chief Information Security Officer. 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, information security 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 Management 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 five meetings during the year and deliberations were 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 takes appropriate actions against the officers responsible 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.

CORPORATE GOVERNANCE

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.
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 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 Committee had four meetings during the year and deliberations were made with the identified related party transactions in the presence of respective Department Heads.

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.		

CORPORATE GOVERNANCE

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 Policy Document for Related Party Transactions. 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 issued by all regulatory bodies for Related Party Transactions.
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.		

Section	Principle	Degree of Compliance	Remarks
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 favorable 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.
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 such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.

CORPORATE GOVERNANCE

<table>
<tr><th>Section</th><th>Principle</th><th>Degree of Compliance</th><th>Remarks</th></tr>
<tr><td>3(8)(ii)</td><td colspan="3">The Board has made the following minimum disclosures in the Annual Report:</td></tr>
<tr><td>a.</td><td>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.</td><td>Complied with</td><td>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 121 to 123.

Directors' Responsibility for financial Reporting on page 126.</td></tr>
<tr><td>b.</td><td>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.</td><td>Complied with</td><td>The Directors' Statement on Internal Controls over Financial Reporting is included on pages 107 to 108.</td></tr>
<tr><td>c.</td><td>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.</td><td>Complied with</td><td>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 page 109.</td></tr>
<tr><td>d.</td><td>Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank.</td><td>Complied with</td><td>Details of the Directors are given on pages 23 & 25 under profiles of the Directors.

The aggregate value of Directors' transactions with the Bank has been disclosed in Note No. 43.4 to the Financial Statements on page 218.

The aggregate value of the remuneration paid (salaries, fees and benefits) to the Board of Directors (including CEO) is disclosed in Note No. 43.3 to the Financial Statements on page 218.</td></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>56.23</td><td>0.33</td></tr>
<tr><td>KMP and Close Family Members</td><td>51.61</td><td>0.30</td></tr>
<tr><td>Entities Controlled by Directors, Shareholder owing a Material Interest and Close Family Members</td><td>4,958.58</td><td>29.14</td></tr>
</table></td></tr>
</table>

Section	Principle	Degree of Compliance	Remarks
f.	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.	Complied with	The aggregate values of remuneration paid to Key Management Personnel (as per CBSL guidelines) during the year are as follows; Short term Benefits - Rs.192.02 Million. Retirement Benefits - Rs.8.89 Million. 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.43.26 Million. Deposits - Rs.126 Million.
g.	The External Auditor's certification of the compliance with these Directions in the Annual Corporate Governance Reports.	Complied with	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 128 of the Annual Report under 'Corporate Governance Report'.
h.	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.	Complied with	A statement of Directors' Responsibility on Financial Reporting is given on pages 126 and 128 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.
i.	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.	Complied with	There were no significant supervisory concerns on lapses in 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.

CORPORATE GOVERNANCE

Attendance of the Directors During the Year - 2020

Name of Director	Board Meetings		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		Board Recoveries Committee		Board IT Steering Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
Dimuth Prasanna	12	12	-	-	13	13	05	05	03	03	08	08	-	-	-	-	11	10	-	-
Sarath Rangamuwa	12	12	14	14	13	13	-	-	-	-	-	-	03	03	04	04	11	11	02	02
Mohan Abeynaike	12	12	14	14	-	-	-	-	03	03	08	08	03	03	04	04	-	-	02	02
Takashi Igarashi	12	12	-	-	-	-	05	05	-	-	-	-	-	-	04	04	-	-	-	-
Toyohiko Murakami	12	12	14	13	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nihal Kekulawala	12	12	14	14	-	-	05	05	03	03	-	-	03	03	-	-	-	-	-	-
Aravinda Perera	12	11	-	-	13	12	-	-	-	-	08	08	03	03	-	-	11	09	02	02
Nimal Tillekeratne	12	12	14	12	13	13	05	05	03	03	08	08	03	02	04	04	11	11	02	02

Present Composition of Directors

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

DIRECTORS' STATEMENT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

Responsibility

In line with the Banking Act Direction No.11 of 2007, section 3(8)(ii)(b), the Board of Directors present 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.

The Board in its conduct took in to account the current pandemic situation with the global outbreak of COVID-19. The bank having islandwide presence catering to major sectors of the economy tasked with providing continuous banking service to its customer base. Accordingly, the Bank adopted innovative methods to ensure its unique customer service is continued to be provided in line with the risk appetite of the Bank. The Bank's management adopted various controls to ensure that service remains uninterrupted for the Bank and the control environment remain resilient despite these developments.

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 the 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, as per the methodology defined in the Internal Audit Manual approved by the Board Audit Committee, 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. Board Audit Committee further reviews the status of implementation of audit recommendations and rectification of audit findings periodically to ensure all the issues are being timely addressed by the Management. The minutes of the Board Audit Committee meetings are forwarded to the Board periodically. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on pages 110 and 111.
- In assessing the internal control system over financial reporting,

DIRECTORS' STATEMENT ON INTERNAL CONTROLS 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. During the COVID-19 period process owners have considered the control measures adopted by the Bank where the Bank had to make changes to its operating environment primarily to accommodate the Central Bank of Sri Lanka directions on moratoriums to affected customers/areas. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis.

- The Bank further strengthened its internal control processes to ensure that the impact on COVID-19 moratorium on interest income and impairment provisions were timely and accurately captured in the financial reporting. The Management also ensured that all critical reconciliations were performed without interruption during the lockdown periods.
- The Bank adopted SLFRS 9 - 'Financial Instruments' in 2018 which became applicable for financial reporting periods beginning on or after 1st January 2018. During the year, the Bank continued to refine the statistical models used in the computations and the data extraction procedures pertaining to the calculations performed in respect of SLFRS 9. Since the adoption of this standard, a progressive improvement on processes to comply with new requirements of classification, estimation of expected credit losses and disclosure were made whilst, further strengthening of processes will continue to take place pertaining to expected credit loss estimation and financial statement disclosures.
- Adequate training and awareness sessions have been conducted for the Board and the Senior Management with regard to SLFRS 9. Further, the Board ensures that processes and controls are put in place for use of management information systems and validation of information extracted to comply with SLFRS 9.
- 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 observations made by the External Auditors in 2020 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 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 2020 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 109 of this Annual Report.

By Order of the Board

Mohan Abeynaike
Chairman
Board Audit Committee

Dimuth Prasanna
Chairman

Nimal Tilekeratne
Director/Chief Executive Officer

Colombo, Sri Lanka
18th February 2021

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

EY
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 107 and 108 of the Annual Report for the year ended 31st December 2020.

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.

18 February 2021
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, Non-Executive, Independent Director/Senior Director

Toyohiko Murakami
Non-Executive, Non Independent Director

Nihal Kekulawala
Non-Executive, Independent Director

Sarath Rangamuwa
Non-Executive, Non Independent Director

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

Role of the Committee

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 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 comply with Sri Lanka Accounting Standards.
- Review the Interim Financial 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.
- Review and assess the effectiveness of the banks' internal control system.
- 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.
- Review the engagement of external auditors' for the provision of non-audit services.
- Ensure that the 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.

Meetings

The committee held 14 meetings during the period under review. During the Covid-19 pandemic period the committee held virtual meetings. Deputy General Manager - Internal Audit functioned as the secretary to the committee.

The Chief Executive Officer, Chief Financial Officer and other Senior Management officers were invited to participate in meetings as and when required.

The committee has met with the External Auditors on two occasions without the presence of CEO and Corporate Management personnel within the year and related minutes are recorded by the Company Secretary.

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

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 on an ongoing basis.
- Assesses the future impacts of the capital requirements and remedial measures to be taken.
- Assessed changes to the tax regulations.
- The committee discussed with External Auditors, CEO, CFO the possible implications and the sectors which could be impacted by the new Central Bank Regulations on Moratoriums on the financial reporting.

Regulatory Compliance

The procedures in place to ensure compliance with mandatory banking and other regulatory requirements were under 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.

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

The Committee has adopted a checklist to validate quarterly 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 with the outbreak of Covid-19 Global Pandemic that presented significant challenges to the Bank in ensuring the functioning of the existing control environment and the movement restrictions due to the lockdown, lead to the revision of the Annual Internal Audit Plan in May 2020. The Banks Internal Audit strengthened its continuous monitoring activities using Computer Assisting Audit Techniques, increasing proactive monitoring and review. The results of these were shared with the Management and Board Audit Committee.

Special working arrangements were made for Internal Audit staff to work from home and to perform online audit reviews/assignments.

The Committee reviewed and evaluated all internal controls, the findings of the internal audits that were completed, findings from internal investigations, online audit reviews performed during lockdown period and the internal controls over financial reporting presented together with the recommendations and Management responses thereto and ensured they provide adequate control over the business processes to effectively mitigate risk wherever it exists.

The committee periodically reviewed the status of implementation of audit recommendations and management rectification actions relating to all outstanding unrectified audit observations with special emphasis to address the implementation of Information Systems controls to strengthen the Bank's IT systems.

Accordingly, appropriate instructions were issued by the committee for the corrective actions to strengthen procedures and internal control & systems to manage overall risk and improve efficiency and effectiveness of key processes.

The Committee reviewed the performance appraisal of the DGM-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 and discussed all relevant matters arising from the interim and final audits, discussed the audit fee, scope, approach and methodology to be adopted and the Management Letter of the External Auditors and the responses of the management thereto.

The Auditors were provided with the opportunity to independently meet with the committee without the CEO and Management Personnel being present and express their opinion on any matter. The auditors have assured that they have no cause to compromise their independence.

The Committee also invited the External Auditors to attend regular meetings and make the presentation of their observations and recommendations.

The committee further followed up on the rectification actions taken by the management in improving the financial reporting based on the Management Letter of 2018 and 2019. 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 Committee reviewed and ensured that the lead audit partner was rotated every five years following Banking Act Direction No.11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka.

The Audit Committee has evaluated the independence and performance of the External Auditors and 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 2021, subject to the approval of the Shareholders at the Annual General Meeting.

Training and Development of Committee Members

Training and continuous professional development were undertaken by BAC includes attending seminars, conferences, workshops, presentations done by Central Bank of Sri Lanka and External Auditor on areas such as new banking regulations, directions, accounting standards, tax etc.

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
18th February 2021

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Composition of the Committee

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

Nihal Kekulawala
Non-Executive, Independent Director - Chairman of the Committee

Dimuth Prasanna
Non-Executive, Non Independent Director

Takashi Igarashi
Non-Executive, Independent Director

Nimal Tillekeratne
Director/Chief Executive Officer

In addition to the above members, the Committee comprises of Chief Risk Officer, Chief Compliance Officer, Chief Information Security Officer and Manager Operational & Integrated Risk who currently functions as the Secretary to the Committee, Officers in Charge of Credit Risk, Treasury Middle Office. The Committee invites other management personnel to attend the meetings depending on the subject matters under consideration in the agenda.

Responsibilities

Overall risk management function is assigned to the Board Integrated Risk Management Committee which is an independent Committee as per the corporate governance rules and 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, the committee recommends risk management directives for the approval of the Board of Directors.

At the meetings, the committee makes adequate deliberations reviewing the achievement of set risk goals and progress made between the reporting periods that are indicated in risk dashboards. More significant and critical factors are discussed under 'Risk Heat Map'. Recommended actions if any are initiated via circulation of meeting minutes among the head of respective business units, operational and support units and the 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.

Meetings

The Committee had five meetings during the year including a special meeting held for the review of ICAAP document. The attendance of committee meeting is given on page 106 of the annual report.

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 that the Bank is exposed to.
- Peruse and review activities and progress of under mentioned management committees that have been 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 the introduction of new risk-related policies and procedures.
- Recommendation of improvements to the Bank's strategy for lending, business expansion and growth, and review mitigating factors for adverse impact on the 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 the 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 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 an integrated manner.
- Evaluate compliance function ensuring the adherence of compliance requirements on time and controlling the 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 risk management policies of the Bank. 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
18th February 2021

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Composition of the Committee

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

Dimuth Prasanna
Chairman, Non-Executive, Non Independent Director

Mohan Abeynaike
Non-Executive, Independent Director/ Senior Director

Nihal Kekulawala
Non-Executive, Independent Director

Nimal Tillekeratne
Director/Chief Executive Officer

Profiles of the members are given on Pages 23 to 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 had three meetings during the year. Attendance of the Committee members at each of these meetings are given on Page 106 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 the 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
18th February 2021

BOARD NOMINATION COMMITTEE REPORT

Composition of the Committee

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

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

Dimuth Prasanna
Non-Executive, Non Independent Director

Aravinda Perera
Non-Executive, Non Independent Director

Profiles of the members are given on Pages 23 to 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 2020, the committee held eight meetings. Attendance of the Committee members at each of these meetings is given on Page 106 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 it 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 will be 3 and the maximum 5.
- All promotees of Senior Manager & above grades to be interviewed by the Nomination Committee, prior to the promotions.
- All outside recruits of Manager & above grades to be interviewed by the Nomination Committee, prior to recruiting.
- Prior to the appointment of Directors, Corporate/Senior Management Members or Margin Trading department staff Affidavit to be submitted to the Nomination Committee for approval, to comply with SEC requirement on fitness & propriety and the affidavits of shareholders having more than 25% shareholding.

On behalf of the Board Nomination Committee

Mohan Abeynaike
Chairman
Board Nomination Committee

Colombo, Sri Lanka
18th February 2021

BOARD CREDIT COMMITTEE REPORT

Composition of the Committee

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

Dimuth Prasanna
Chairman, Non-Executive, Non Independent Director

Sarath Rangamuwa
Non-Executive, Non Independent Director

Aravinda Perera
Non-Executive, Non Independent Director

Nimal Tillekeratne
Director/Chief Executive Officer

The Chief Risk Officer is a member of the Committee. Senior Manager II - Credit Risk currently acts as the Secretary to the Committee. Management personnel of the Bank in charge of Corporate Banking, Branch Credit, Credit Risk, Retail Credit, Legal and Recoveries attend the meetings by invitation.

Responsibilities and Meetings

The Committee derives its operating scope and authority from the Board of Directors with 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 operating environment.
- Monitor changes in the economic and the operating environment of the Bank so that Bank can have adequate controls in the lending book.
- Provide guidance and directives for credit origination.

The Committee had 13 meetings during the year and minutes of each meeting were duly circulated among the members of the committee and management personnel for follow up actions and disbursement of credit as per the conditions stipulated by the Committee. 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 with regard to Related Partied 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.
- Ensure adequate level of credit growth without compromising the credit quality of the lending portfolio.

The Committee monitors the adherence of Board Approved Credit Policy, regulatory guidelines and 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
18th February 2021

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's 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 measured quarterly 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, Non-Executive, Independent Director/Senior Director

Nihal Kekulawala
Non-Executive, Independent Director

Aravinda Perera
Non-Executive, Non Independent Director

Sarath Rangamuwa
Non-Executive, Non Independent Director

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 three times during the year. The attendance of the Committee members at each of these meetings are given on page 106 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) 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 on timely basis in comparison to Key Performance Indicators (KPIs) and provide advice on further improvements to strategies and alternative course of action on non-achievement of KPI's.

d) 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 advise 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 of Directors.

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

4) Reviewing the appropriateness of current Vision, Mission and Corporate Values 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 and make recommendation to the Board of Directors.

Performance

The Committee reviewed the Bank's performance against the strategic plan and the budget for the year 2020 and discussed reasons for substantial deviations and directed management for remedial actions.

Annual Budget for the year 2021 was discussed and reviewed in detail and changes to be incorporated were recommended before submitting to the Board of Directors for their approval. The Committee reviewed and took note of the Bank's capital structure against its growth targets and recommended to the Board the need for capital infusions to stay the course of the growth set out in the strategic plan and the budget as well as to be in line with minimum capital requirements imposed by the regulator.

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
18th February 2021

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, Non-Executive, Independent Director/Senior Director

Takashi Igarashi
Non-Executive, Independent Director

Sarath Rangamuwa
Non-Executive, Non Independent Director

Nimal Tillekeratne
Director/Chief Executive Officer

In addition to the above members, the committee comprises of Chief Risk Officer, Chief Financial Officer and Chief Compliance Officer. The committee invites Key Management Personnel and other members of the senior management on need basis to get further clarifications on subject matters.

Secretary

Chief Compliance Officer functions as the secretary to the committee.

Meetings

During the Financial Year 2020 the Committee held four meetings covering the four quarters. All matters stemming from the respective departments with regard to Related Party Transactions have been reviewed and discussed with the participation of relevant 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 and 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 for the ongoing dealings with Related Parties, subject to Annual Review of such guidelines with the appropriateness of the transactions.

The Committee ensures that Bank had adhered 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
18th February 2021

BOARD RECOVERIES COMMITTEE REPORT

Composition of the Committee

The Board members of the Recoveries Committee comprises of following Directors as at the year end;

Dimuth Prasanna
Chairman, Non-Executive,
Non Independent Director

Sarath Rangamuwa
Non-Executive, Non Independent Director

Aravinda Perera
Non-Executive, Non Independent Director

Nimal Tillekeratne
Director/Chief Executive Officer

DGM Recoveries and Chief Risk Officer are members of the Committee. Senior Manager II - Credit Risk currently acts as the Secretary to the Committee.

Senior DGM, AGM-Corporate Banking, AGM-Retail Credit, AGMs of Branch Credit, Chief Manager-Consumer Credit, Chief Financial Officer, Area Managers and other product heads attend as invitees to the Committee.

The Board Recoveries Committee was set up in 2019 to have top to bottom approach in minimising Non-Performing Advances and maximising the profitability of the Bank. Recoveries are of paramount important for the overall performance of the Bank. Hence, it needs to ensure the commitment from all stakeholder concerned supporting the overall recovery process at large. The Committee was formed for the purpose of ensuring sound recovery function & minimising potential Non-Performing Advances to achieve sustainable growth and stability over the period of time.

Responsibilities

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

- Operate a sound Non Performing Advances management process.
- Review reports with regard to payment due management and watch listed credits.
- Expedite recoveries & post disbursement monitoring process by adopting appropriate strategies.
- Ensuring adequate controls over non performing/payment due advances.
- Identification and administration of problematic Non Performing Advances.
- Monitor the follow up process of Non Performing Advances of each area & Corporate Banking Department with the support of Business Unit Heads, Committee may take corrective action depending on circumstances.

The following reports are mainly discussed at the meeting;

1. Non Performing Loans Management and Post Disbursement Monitoring.
2. Collections & Recoveries – Credit Cards & Consumer Loans.
3. Margin Trading Status Report.

In addition to the above, any other matters in relation to Recoveries & NPA are discussed at the meeting.

Meetings

The Committee had 11 meetings during the year and minutes of each meeting were duly circulated among the committee members and management personnel for follow up actions.

Functions of the Committee

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

- Establish appropriate recovery strategies for NPAs and delinquent credit of the Bank.
- Review performances against recovery targets that are agreed with respective Area Mangers and department/product heads of the Bank.
- Guide the management team for possible recovery actions.
- Advise the management to avoid vulnerable industries and sectors that do not fall within the risk appetite of the Bank.
- Ensure compliance with regulatory guidelines with regard to recoveries.
- Make sure the recovery process is managed with adequate resources so that the Bank can carry out the function smoothly.
- Proposed actions for quality credit underwriting in order to minimise new NPA additions.

On behalf of the Board Recoveries Committee

Dimuth Prasanna
Chairman
Board Recoveries Committee

Colombo, Sri Lanka
18th February 2021

BOARD INFORMATION TECHNOLOGY STEERING COMMITTEE REPORT

Composition of the Committee

The Board Information Technology Steering Committee comprises of the following Directors as at year end.

Aravinda Perera
Chairman, Non-Executive,
Non Independent Director

Sarath Rangamuwa
Non-Executive, Non Independent Director

Mohan Abeynaike
Non-Executive, Independent Director

Nimal Tillekeratne
Director/Chief Executive Officer

Profiles of the members are given on Pages 23 to 25 of the Annual Report.

Secretary

The Company Secretary functions as the Secretary to the Committee.

Following Officers are invited for the meeting;

- Deputy General Manager - IT.
- Deputy General Manager - Core Banking Development.
- Senior Manager - IT Services & Projects.
- Senior Manager - IT Infrastructure.
- Any other officials determined by the committee.

Meetings

Board Information Technology Steering Committee meetings are conducted quarterly or more frequently if necessary. The Committee was formed in May, 2020. During the year 2020, the committee held two meetings. Attendance of the Committee members at the meetings are on Page 106 of the Annual Report. The Committee reports directly to the Board of Directors.

Purpose

The Board Information Technology Steering Committee was established by the Board of Directors to provide strategic direction to the Information Technology function of the Bank.

Scope

The Board Information Technology Steering Committee shall provide strategic direction to the Information Technology function by helping align technology objectives and initiatives with those of the business, and also evaluate new opportunities provided by emerging technology suggested by the management.

If required the Board Information Technology Steering Committee may seek independent advice on matters which assist it with discharging its responsibilities.

On behalf of the Board Information Technology Steering Committee

Aravinda Perera
Chairman
Board Information Technology Steering Committee

Colombo, Sri Lanka
18th February 2021

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 2020.

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 18th of February 2021.

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:

	2020 Rs. 000	2019 Rs. 000
Profit before Tax	2,838,166	2,314,139
Income Tax Expense	(789,998)	(563,570)
Profit for the Year	2,048,168	1,750,569
Other Comprehensive Income	(6,783)	3,908
Retained Profit Brought Forward	8,231,159	6,557,389
Transfer to Reserve Fund	(102,408)	(87,528)
Realisation of Revaluation Reserve	8,933	6,821
Un-appropriated Profit to be Carried Forward	10,179,069	8,231,159

Financial Statements

The Financial Statements of the Bank are given on pages 136 to 222 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:

	2020 Rs. 000	2019 Rs. 000
Gross Income	20,881,424	21,907,662

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 page 124 of the Annual Report.

Shareholders' Funds and Reserves

The Bank's Total Reserves as at 31st December 2020 stood at Rs.11,782,915,442/-. This comprises Statutory Reserve Fund of Rs.641,125,467 /-, Revaluation Reserve of Rs.962,721,014/- and Retained Earnings of Rs.10,179,068,961/-. The movement in Revaluation Reserve and Statutory Reserve Fund and are shown in Note 33 and 34 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 131 to 135. 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 140 to 159.

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 from 1st January 2020 to date are given below and there were no changes occurred in the composition of the Board during this period. The classification of Directors into 'Executive', 'Non-Executive, Non Independent' and 'Non-Executive, Independent' 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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS' ON THE AFFAIRS OF THE BANK

Dimuth Prasanna	Non-Executive, Non Independent Director since May, 2012. Appointed as 'Deputy Chairman' in September 2016 until 25th January, 2017 and was appointed Chairman in July, 2017.
Sarath Rangamuwa	Non-Executive, Non Independent Director since August, 2014. Appointed as Deputy Chairman in January, 2018.
Mohan Abeynaike	Non-Executive, Independent Director since October, 2014. Appointed as 'Senior Director' in February, 2015.
Takashi Igarashi	Non-Executive, Independent Director since October, 2012.
Toyohiko Murakami	Non-Executive, Non Independent Director since April, 2013.
Nihal Kekulawala	Non-Executive, Independent Director since August, 2016.
Aravinda Perera	Non-Executive, Non Independent Director since August, 2017.
Nimal Tillekeratne	Director/Chief Executive Officer since April, 2017.

Re-elections

In terms of Article No's. 82 and 83 of the Articles of Association of the Bank, Sarath Rangamuwa and Mohan Abeynaike 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 the Association of the Bank no Directors were appointed under casual vacancies during the year 2020.

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 page 124 of the Annual Report.

Directors' Interest in Shares

	No. of Shares As at 01.01.2020	No. of Shares As at 31.12.2020
Dimuth Prasanna	34,801	34,801
Sarath Rangamuwa	-	125,000
Mohan Abeynaike	-	-
Takashi Igarashi	-	-
Toyohiko Murakami	-	-
Nihal Kekulawala	-	-
Aravinda Perera	-	-
Nimal Tillekeratne	-	-

External Auditors

In accordance with the Companies Act No. 07 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 payable to Ernst & Young for the year under review amounted to Rs.4,883,918/-.

Stated Capital

The Stated Capital of the Bank is Rs.3,614,253,304/-. The details are given in Note 32 to the Financial Statements.

Internal Controls

The Board of Directors has 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.

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 76 to 106.

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.92,189,721/- during 2020, details of which are given in Note 21 to the Financial Statements. Expenditure on Intangible Asset at cost amounted to Rs.109,469,035/- during 2020, details of which are given in Note 23 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 2020 was 4,912 compared to 4,337 as at 31st December 2019. The schedule indicating the shareholder's analysis is on pages 266 to 269.

Debentures

The details of all Debentures of the Bank are given in Note 31 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 formed the required Board Committees and the composition is given in the Governance report.

New Branches

No new branches were opened during the year under review, total number of branches stood at 85 at the end of 2020.

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.

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 as a virtual meeting on 31st March 2021. The Notice of Meeting can be found on page 276.

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
18th February 2021

DIRECTORS' INTEREST REGISTER

Director's/ Company Name	Relationship	Type of Assets / Liabilities/ Accommodation	Balance Outstanding as at 31.12.2020 Rs.
Dimuth Prasanna			
Grandmark (Pvt) Ltd	Chairman	Deposits	49,912
Wise Property Solutions (Pvt) Ltd	Managing Director	Deposits	929,996
Royal Ceramics Lanka PLC	Director	Deposits	19,362,924
		Loans and Advances	886,096
Rocell Bathware Ltd	Director	Deposits	425,431
Country Energy (Pvt) Ltd	Director	Deposits	60,862
La Fortresse (Pvt) Ltd	Director	Deposits	21,251
Delmege Aviation Services (Pvt) Ltd	Director	Deposits	812,459
Sarath Rangamuwa			
Vallibel Finance PLC	Managing Director	Deposits	1,346,474,645
		Loans and Advances	169,080
		Repo Borrowings	650,000,000
		Off Balance Sheet Accommodation	1,200,000
Takashi Igarashi			
NWS Management Services (Pvt) Ltd	Director	Deposits	79,708
Sushi Bar Samurai (Pvt) Ltd	Director	Deposits	39,379
Toyohiko Murakami			
Bansei Holdings LK (Pvt) Ltd	Chairman	Deposits	374,580,167
Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman	Deposits	86,322,480
Bansei Securities Capital (Pvt) Ltd	Director	Deposits	5,972,572
		Repo Borrowings	17,000,000
Vallibel Finance PLC	Director	Deposits	1,346,474,645
		Loans and Advances	169,080
		Repo Borrowings	650,000,000
		Off Balance Sheet Accommodation	1,200,000
Bansei & NWS Consultancy (Pvt) Ltd	Director	Deposits	20,375
Hikkaduwa Hotel Holdings (Pvt) Ltd	Director	Deposits	9,612,830
Bansei Resorts Bentota (Pvt) Ltd	Director	Deposits	162,582
B R B Holidays (Pvt) Ltd	Director	Deposits	378,233
BHLK Investments (Pvt) Ltd	Director	Deposits	78,921,662
Wakana JPN (Pvt) Ltd	Director	Deposits	62,108,296
Wakana Holidays (Pvt) Ltd	Director	Deposits	238,806
Nihal Kekulawala			
Lanka Walltiles PLC	Director	Deposits	29,259
Continental Insurance Lanka Ltd	Director	Deposits	52,795,674
AMW Capital Leasing and Finance PLC	Director	Deposits	344,303
Softlogic Holdings PLC	Director	Loans and Advances	266,666,667
Aravinda Perera			
Royal Ceramics Lanka PLC	Managing Director	Deposits	19,362,924
		Loans and Advances	886,096
Hayleys PLC	Director	Deposits	27,843
Rocell Bathware Ltd	Director	Deposits	425,431

DIRECTORS' 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.	Rocell Bathware Ltd.	Director
5.	Delmege Forsyth & Co. (Shipping) Ltd.	Director
6.	Country Energy (Pvt) Ltd.	Director
7.	La Fortresse (Pvt) Ltd.	Director
8.	Delmege Forsyth & Co. (Exports) (Pvt) Ltd.	Director
9.	Delmege Insurance Brokers (Pvt) Ltd.	Director
10.	Rocell Properties Ltd.	Director
11.	Delmege Coir (Pvt) Ltd.	Director
12.	Delmege Freight Services (Pvt) Ltd.	Director
13.	Delmege Air Services (Pvt) Ltd.	Director
14.	Lewis Brown Air Services (Pvt) Ltd.	Director
15.	Lanka Tiles PLC	Alternate Director
16.	Delmege Aviation Services (Pvt) Ltd.	Director
17.	Delmege Airline Services (Pvt) Ltd.	Director
18.	Delmege Aero Services (Pvt) Ltd.	Director
19.	Royal Ceramics Distributors (Pvt) Ltd	Director

Sarath Rangamuwa
Deputy Chairman

	Company Name	Position
1.	Vallibel Finance PLC	Managing Director
2.	Finance House Consortium (Pvt) Ltd.	Director
3.	Vallibel Properties (Pvt) Ltd	Managing 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.	Sushi Bar Samurai (Pvt) Ltd	Director

*The above Directorships are as at 31st December 2020.

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.	B H L K Investments (Pvt) Ltd.	Director
11.	Wakana JPN (Pvt) Ltd.	Director
12.	Wakana Holidays (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 Advantis Ltd.	Director
5.	Hayleys Aventura (Pvt) Ltd.	Director
6.	Fentons Ltd.	Director
7.	Rocell Bathware Ltd.	Director
8.	Snaps Residencies (Pvt) Ltd.	Chairman

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 131 to 135 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 2020, 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 18th February 2021 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 efforts 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 2020 is given on pages 107 & 108 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 109 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 131 to 135 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

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
18th February 2021

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 2020 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 2020, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 107 and 108 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 109 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 131 to 135 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

Suranga Fernando
Chief Financial Officer

Colombo, Sri Lanka
18th February 2021

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 Department

The Compliance Department plays a vital role in mitigating the compliance risk arising out of the day-to-day operations. The department consistently assesses the Bank's compliance with laws, regulations, and statutory guidelines issued and also the internal controls and policies. The department functions independently and is headed by the Chief 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), Foreign Exchange and FACTA are some of the key functions carried out by the department along with 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 department 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) which are submitted on a quarterly basis.

The Compliance Certificate includes;

- Significant changes 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 Department 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.

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 the 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 based on Risk as High, Medium and Low and a higher level of due diligence and monitoring is carried out in high risk areas. The Compliance Department carries out risk-based testing Bank-wide to ensure adherence to the stipulated framework.

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. In relation to 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.

Steadfast Growth. Enduring Value.

In moments of triumph and joy throughout the nation's history, Pan Asia Bank remained steadfast against all odds; constantly integrating enduring value into lives.

FINANCIAL AND INVESTOR INFORMATION

FINANCIAL CALENDAR

2020	
1st Quarter Unaudited Interim Results 2020	May 2020
2nd Quarter Unaudited Interim Results 2020	August 2020
3rd Quarter Unaudited Interim Results 2020	November 2020
4th Quarter Unaudited Interim Results 2020	February 2021
Annual Report for Year 2020	March 2021
26th Annual General Meeting	March 2021

2021	
1st Quarter Unaudited Interim Results 2021	May 2021
2nd Quarter Unaudited Interim Results 2021	August 2021
3rd Quarter Unaudited Interim Results 2021	November 2021
4th Quarter Unaudited Interim Results 2021	February 2022
Annual Report for Year 2021	March 2022
27th Annual General Meeting	March 2022

INDEPENDENT AUDITORS' REPORT

Ernst & Young
Chartered Accountants
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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 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Bank as at 31st December 2020, 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
Provision for credit impairment on loans and advances carried at amortised cost As described in Notes 18 and 37.2, provision for credit impairment on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard- SLFRS 9 Financial Instruments (SLFRS 9). This was a key audit matter due to: • materiality of the reported provision for credit impairment which involved complex manual calculations; and • the degree of assumptions, judgements and estimation uncertainty associated with the calculations. Key areas of significant judgements, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following; - the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Bank); - the determination on whether or not customer contracts have been substantially modified due to such COVID-19 - related stimulus and relief measures granted and related effects on the amount of interest income recognised on affected loans and advances and - forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.	We assessed the alignment of the Bank's expected credit loss model computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following: • We evaluated the design, implementation and operating effectiveness of controls over estimation of impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management • We checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the Bank • We checked the underlying manual calculations • In addition to the above, the following procedures were performed: **For a sample of loans and advances assessed on an individual basis for impairment:** - Assessing the reasonableness and timeliness of internal credit assessments based on the borrower's particular circumstances determined by management; and - Evaluating the associated reasonability of the provisions made with particular focus on the impact of COVID-19 on high risk industries, strategic responsive actions taken, collateral values, and the value and timing of recoveries **For loans and advances assessed on a collective basis for impairment:** - Assessing the reasonability of assumptions and estimates used by Management including the reasonableness of forward-looking information and scenarios - As relevant, the basis for and data used by Management to determine overlays in consideration of the probable effects of the COVID -19 pandemic

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Key Audit Matter	How our audit addressed the key audit matter
	For loans and advances affected by government stimulus and debt moratorium relief measures granted - Assessing the reasonableness of judgements, calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; and - Evaluating and test checking the reasonability of the interest income recognised on such affected loans and advances • We assessed the adequacy of the related financial statement disclosures set out in Notes 18 and 37.2.
IT systems and controls relevant to financial reporting The Bank uses multiple IT systems in its operations. The COVID -19 pandemic necessitated the Bank to adapt various operating processes and procedures including modification of relevant controls to mitigate the resulting risks. IT systems and controls relevant to financial reporting was a key audit matter due to: • A changed working environment of increased remote access • The Bank's financial reporting process being heavily dependent on information derived from its IT systems and • Key financial statement disclosures involving the use of multiple system – generated reports, collation and spreadsheet – based calculations	Our audit procedures included the following, • Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access • Understanding and evaluating the 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 in calculating the significant information for financial statement disclosures • Checking the source data of the reports used to generate significant disclosures for accuracy and completeness • Assessing the reasonability of Management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant

INDEPENDENT AUDITORS' REPORT

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Other information included in the 2020 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:

1. 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.

2. 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.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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4. 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.

5. 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 2471.

18 February 2021
Colombo

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31st December	Notes	2020 Rs.	2019 Rs.
Profit or Loss			
Gross Income		20,881,424,417	21,907,662,058
Interest Income		18,821,012,679	19,416,605,852
Interest Expense		(11,451,264,021)	(12,782,017,370)
Net Interest Income	4	7,369,748,658	6,634,588,482
Fee and Commission Income		1,346,032,497	1,605,877,008
Fee and Commission Expense		(69,968,642)	(60,559,052)
Net Fee and Commission Income	5	1,276,063,855	1,545,317,956
Net Gains from Trading	6	478,880,030	649,576,876
Other Operating Income	7	235,499,211	235,602,322
Total Operating Income		9,360,191,754	9,065,085,636
Impairment Charges	8	1,596,041,816	1,136,842,858
Net Operating Income		7,764,149,938	7,928,242,778
Personnel Expenses	9	1,942,764,530	1,973,309,656
Other Operating Expenses	10	2,293,184,438	2,552,253,935
Total Operating Expenses		4,235,948,968	4,525,563,591
Operating Profit Before Taxes & Levies on Financial Services		3,528,200,970	3,402,679,187
Taxes and Levies on Financial Services	11	690,034,538	1,088,540,188
Profit Before Tax		2,838,166,432	2,314,138,999
Income Tax Expense	12	789,998,057	563,569,904
Profit for the Year		2,048,168,375	1,750,569,095
Other Comprehensive Income			
Other Comprehensive Income not to be Re - Classified to Profit or Loss			
Revaluation Surplus on Property, Plant and Equipment		37,493,169	455,092,963
Deferred Tax Effect on Above	12.2	(10,498,087)	(127,426,030)
	33	26,995,082	327,666,933
Actuarial Gains/(Losses) on Defined Benefit Plan	30.1	(9,420,718)	5,429,059
Deferred Tax Effect on Above	12.2	2,637,801	(1,520,137)
		(6,782,917)	3,908,922
Other Comprehensive Income for the Year Net of Tax		20,212,165	331,575,855
Total Comprehensive Income for the Year		2,068,380,540	2,082,144,950
Earnings Per Share - Basic/Diluted	13	4.63	3.96

The Accounting Policies and Notes on pages 140 to 222 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31st December	Notes	2020 Rs.	2019 Rs.
Assets			
Cash and Cash Equivalents	14	2,914,162,517	1,708,269,215
Balances with Central Bank of Sri Lanka	15	2,583,393,998	5,333,199,577
Derivative Financial Instruments	16	93,012,698	443,298
Financial Assets at Fair Value through Profit or Loss	17	-	168,176,768
Financial Assets at Amortised Cost			
Loans and Advances	18	123,157,186,898	111,187,855,278
Debt and Other Instruments	19	43,519,891,277	30,080,088,461
Financial Assets at Fair Value through Other Comprehensive Income	20	6,157,847	6,157,847
Property, Plant and Equipment	21	2,307,881,538	2,333,961,113
Right-of-Use Assets	22	983,365,290	911,836,800
Intangible Assets	23	346,697,490	280,851,974
Other Assets	24	1,028,658,005	968,855,145
Total Assets		176,940,407,558	152,979,695,476
Liabilities			
Due to Banks	25	2,863,376,414	521,836,342
Derivative Financial Instruments	16	79,005,240	107,293
Financial Liabilities at Amortised Cost			
Due to Depositors	26	141,079,707,186	122,544,024,040
Due to Debt Securities Holders	27	11,535,791,151	11,944,842,751
Debentures Issued	31	872,839,452	-
Current Tax Liabilities		825,101,530	752,287,378
Deferred Tax Liabilities	12.2	159,834,404	132,780,476
Other Provisions and Accruals	28	210,863,659	187,602,599
Other Liabilities	29	3,916,719,776	3,567,426,391
Total Liabilities		161,543,238,812	139,650,907,270
Equity			
Stated Capital	32	3,614,253,304	3,614,253,304
Retained Earnings		10,179,068,961	8,231,159,133
Revaluation Reserve	33	962,721,014	944,658,721
Statutory Reserve Fund	34	641,125,467	538,717,048
Total Equity		15,397,168,746	13,328,788,206
Total Liabilities and Equity		176,940,407,558	152,979,695,476
Commitments and Contingencies	41	67,728,483,890	46,999,029,226
Net Asset Value Per Ordinary Share	38	34.79	30.12

The Accounting Policies and Notes on pages 140 to 222 form an integral part of these Financial Statements.

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

Suranga Fernando
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

18th February 2021
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 2019		3,614,253,304	6,557,388,818	451,188,593	623,812,541	11,246,643,256
Total Comprehensive Income for the Year						
Profit for the Year		-	1,750,569,095	-	-	1,750,569,095
Other Comprehensive Income for the Year		-	3,908,922	-	327,666,933	331,575,855
Total Comprehensive Income for the Year		-	1,754,478,017	-	327,666,933	2,082,144,950
Other Transactions						
Transfer to Statutory Reserve Fund	34	-	(87,528,455)	87,528,455	-	-
Realisation of Revaluation Reserve	33	-	6,820,753	-	(6,820,753)	-
Total Other Transactions		-	(80,707,702)	87,528,455	(6,820,753)	-
Balance as at 31st December 2019		3,614,253,304	8,231,159,133	538,717,048	944,658,721	13,328,788,206
Total Comprehensive Income for the Year						
Profit for the Year		-	2,048,168,375	-	-	2,048,168,375
Other Comprehensive Income for the Year		-	(6,782,917)	-	26,995,082	20,212,165
Total Comprehensive Income for the Year		-	2,041,385,458	-	26,995,082	2,068,380,540
Other Transactions						
Transfer to Statutory Reserve Fund	34	-	(102,408,419)	102,408,419	-	-
Realisation of Revaluation Reserve	33	-	8,932,789	-	(8,932,789)	-
Total Other Transactions		-	(93,475,630)	102,408,419	(8,932,789)	-
Balance as at 31st December 2020		3,614,253,304	10,179,068,961	641,125,467	962,721,014	15,397,168,746

The Accounting Policies and Notes on pages 140 to 222 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31st December	Notes	2020 Rs.	2019 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		2,838,166,432	2,314,138,999
Adjustments for:			
Other Non-Cash Items Included in Profit Before Tax	39.4	2,089,994,282	1,602,000,804
Change in Operating Assets	39.2	(24,521,737,146)	608,163,535
Change in Operating Liabilities	39.3	20,084,552,788	2,363,146,342
Interest Expense on Debentures	4	52,839,452	454,862,881
Interest Expense on Lease Liability	4	87,494,513	101,630,636
Interest Expense on Term Borrowings		851,382,331	847,112,868
Defined Benefit Plan Costs Paid	30.2	(26,776,500)	(25,359,850)
Income Tax Paid		(697,990,263)	(588,251,962)
Net Cash Flows from Operating Activities		757,925,889	7,677,444,253
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	21.1	(92,189,721)	(98,326,479)
Proceeds from the Sale of Property, Plant and Equipment		138,036	776,810
Purchase of Intangible Assets	23.1	(109,469,035)	(13,207,997)
Net Cash Flows used in Investing Activities		(201,520,720)	(110,757,666)
Cash Flows from Financing Activities			
Proceeds from Term Borrowings	39.6	4,090,350,000	362,760,000
Proceeds from Debenture Issue	39.6	820,000,000	-
Redemption of Debentures	39.6	-	(5,690,855,300)
Repayment of Term Borrowings	39.6	(3,176,560,000)	(1,000,000,000)
Interest Paid on Debentures	39.6	-	(573,193,734)
Interest Paid on Term Borrowings	39.6	(801,836,214)	(861,852,688)
Repayment of Principal Portion of Lease Liabilities	39.6	(193,227,009)	(206,370,814)
Interest Paid on Lease Liabilities	39.6	(87,494,513)	(101,630,636)
Net Cash Flows from/(used in) Financing Activities		651,232,264	(8,071,143,172)
Net Increase/(Decrease) in Cash and Cash Equivalents		1,207,637,433	(504,456,585)
Cash and Cash Equivalents at 1st January	39.1	1,709,649,763	2,214,106,348
Cash and Cash Equivalents at 31st December	39.1	2,917,287,196	1,709,649,763

The Accounting Policies and Notes on pages 140 to 222 form an integral part of these 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 a limited liability and domiciled in Sri Lanka. It is a Licensed Commercial Bank registered under the Banking Act No. 30 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 2020 is 1,483 (2019:1,629). The ordinary voting shares 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 AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

The Financial Statements of the Bank for the year ended 31st December 2020 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. 07 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 include 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 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 Sri Lanka Accounting Standards.

2.3 Approval of Financial Statements by Directors

The Financial Statements for the year ended 31st December 2020 were authorised for issue by the Board of Directors on 18th February 2021.

2.4 Basis of Measurement

The Financial Statements have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position which have been measured at fair value:

- Financial assets at fair value through profit or loss (FVPL)
- Financial assets at fair value through other comprehensive income (FVOCI)
- Derivative financial instruments at fair value
- Defined benefit obligations actuarially valued
- Freehold land and building stated at revalued amounts which are the fair values at the date of revaluation as explained in Note 21 to the Financial Statements

2.4.1 Functional and Presentation Currency

The Financial Statements of the Bank are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank operates (Bank's functional currency) unless indicated otherwise. There was no change in the Bank's presentation and functional currency during the year under review.

2.5 Impact of COVID-19

2.5.1 Background

COVID-19 pandemic and measures undertaken to contain it have dramatically changed the local as well as the global economy causing large scale economic disruption and volatility in financial markets. The market disruption is expected to lead to lowering GDP growth, rising levels of unemployment, depreciation of currencies as well as higher credit losses.

In an attempt to moderate the economic impact on the economy, the Government of Sri Lanka and Central Bank of Sri Lanka introduced several monetary reliefs to businesses to remain liquid and solvent and customers to maintain their lives without further burden. The extent to which these efforts will reduce the adverse financial effects of the COVID-19 pandemic still remains uncertain.

2.5.2 Consideration of the Financial Statements and Further Disclosures

The Bank has carefully considered the impact of COVID-19 pandemic in preparing its Financial Statements for the year ended 31st December 2020. The key impacts on the financial statements, including the application of critical estimates and judgements are given below:

2.5.2.1 On loans and other advances

The Bank has introduced a number of support measures for customers impacted by COVID-19, which include loan repayment deferrals (loan moratoriums), waiving of late payment charges & cheque return charges and granting of loans under the Government's COVID -19 Renaissance Scheme.

These repayment deferral arrangements i.e. loan moratoriums were deemed continuations of customers' existing loan contracts and were therefore accounted for as 'non-substantial loan modifications'. The entire modification loss in relation to repayment deferrals on loans were recognised under the interest income of the year (Profit or Loss). Interest for the payment deferral period was charged at reduced interest rate on a simple interest basis, rather than on compounding basis. The details of modified financial assets is given in Note 37.2.6.1.

2.5.2.2 Provisions for impairment

In assessing forecast conditions, the Bank has incorporated the effects of COVID-19 and government support measures on a reasonable and supportable basis. The SLFRS 9 impairment methodology and the definition of default have remained consistent with prior periods.

Forward looking adjustments have been determined based on a range of credible economic and industry stress factors, taking into account the mitigating impacts of government support packages, including loan repayment deferral arrangements.

The circumstances are unique in that many of the deferred loans were performing prior to COVID-19, and either continue to perform, or have genuine prospects of recovery once restrictions are eased and economy is back to normal. COVID-19 repayment deferrals were not borrower specific, but rather addressed to broad ranges of customers as applied by them and have therefore, not been classified under Stage 2 by default. However, the Bank has downgraded the borrowers in elevated risk industries between stages as applicable. Further details of management overlays is given in Note 37.2.7.

2.5.2.3 Fair value measurement

The Bank has considered the impact of economic and market disruptions on fair value measurement assumptions and the appropriateness of the valuation inputs. The Bank has also considered the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

There were no material transfers of financial instruments between levels within the fair value hierarchy as a consequence of COVID-19.

2.5.2.4 Assessment of impairment of non-financial assets

The Bank assessed property, plant and equipment, right-of-use assets, and assets held as lessor for indicators of impairment. No impairment losses were recognised to Profit or Loss to this extent.

2.5.2.5 Refinanced working capital loans

Central Bank of Sri Lanka announced working capital loan facilities to licensed banks to support lending to businesses affected by COVID-19. The working capital loan is a two year facility with a fixed interest rate of 4% per annum which again funded to banks at an interest rate of 1% under the government refinance schemes. As the interest rate of 4% in considered as the market rate of this product no Day 1 impact arose. The funding is collateralised by promissory notes over loans and advances of the Bank. The Bank measured the said facility at amortised cost using the effective interest rate method.

2.5.2.6 Events after the reporting date

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. The Bank considered whether events after the reporting date confirmed conditions existing before the reporting date in accordance with LKAS 10 - 'Events after the Reporting Date', Consideration was given to the macroeconomic impact of selective lockdowns implemented in certain areas, import restrictions on goods, restrictions on leisure sector and extension of further government support measures.

The Bank did not identify any subsequent events precipitated by COVID-19 related developments, which would require adjustments to the amounts or disclosures in the financial statements. Further, no other material non-adjusting subsequent events relating to COVID-19 were identified requiring disclosure in the financial statements. Given the flowing nature of the current situation, the Bank will continue to often review forward looking assumptions and forecast economic scenarios.

2.6 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 40. Financial assets and financial liabilities are offset and the net amount is 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.

NOTES TO THE FINANCIAL STATEMENTS

2.7 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, 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.

2.7.1 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.

2.7.1.1 Impact of COVID-19 pandemic on going concern

The COVID-19 pandemic and its effect on the local and global economies have impacted the Bank customers, operations and its performance. The outbreak necessitated the Government to respond at unprecedented levels to protect the health of the population, local economies and livelihoods. It has affected different geographies of the country at different times and at varying degrees and there remains a risk of subsequent waves of infection. Therefore, the pandemic has significantly increased the estimation uncertainty in the preparation of these Financial Statements including:

- the extent and duration of the disruption to business arising from the actions of the government, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn, and subsequent recovery. This includes the impacts on credit quality, liquidity, increasing unemployment, drop in consumer spending, reductions in production; and
- the effectiveness of the Government and Central Bank of Sri Lanka measures to support businesses and consumers through this disruption and economic downturn.

The Bank has made various estimates in these Financial Statements based on forecasts of economic conditions which reflect expectations and assumptions as at the year end about future events that the Board of Directors believes are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Bank. Accordingly, actual economic conditions are likely to be different from those forecasts since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these Financial Statements. The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets.

2.7.2 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 35 'Analysis of Financial Assets and Liabilities by Measurement Basis'.

2.7.3 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 fair valuation of financial instruments is described in more detail in Note 36.

2.7.4 Impairment Losses on Financial Assets

The measurement of impairment losses under SLFRS 9 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, collateral values and the effect on Probability of Defaults (PDs), Exposure at Defaults (EADs) and Loss Given Defaults (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 8, 14.1, 18.5, 18.6, 19.4 and 29.2.

2.7.5 Fair Value of Property, Plant and Equipment

The freehold land and buildings of the Bank are reflected at fair value. The management has 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 21.6.

2.7.6 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.

2.7.7 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 30.

2.7.8 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.

2.7.9 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 benefits 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.

2.8 Changes in Accounting Policies and Disclosures

2.8.1 New and Amended Standards and Interpretations

2.8.1.1 Amendment to SLFRS 16 - COVID-19 related rent concession

The amendment provides relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for a change under SLFRS 16, if the change was not a lease modification. The amendment applies to annual reporting periods beginning on or after 1st June 2020.

The amendment did not have an impact on the Financial Statements of the Bank.

2.9 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

2.9.1 Foreign Currency Translation - Transactions and Balances

Transactions in foreign currencies are translated into the functional currency, which is Sri Lankan Rupees, using the spot rate of exchange prevailing at the dates on which the transactions were affected. Monetary assets and liabilities denominated in foreign currencies are retranslated to Sri Lankan Rupees using the spot rate of exchange prevailing at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in Profit or Loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to Sri Lankan Rupees using the spot exchange rates as at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Sri Lankan Rupees at the exchange rates on the date that the fair value was determined.

Forward foreign exchange contracts are valued at the forward market rate ruling on reporting date. Resulting gains and losses are dealt under 'Net Gains from Trading' in the Statement of Comprehensive Income (Profit or Loss).

2.9.2 Financial instruments - Initial Recognition

2.9.2.1 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.

2.9.2.2 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 2.9.3.1.1 and 2.9.3.1.2. 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. 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.

2.9.2.3 '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.

2.9.2.4 Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either:

- Amortised cost, as explained in Note 2.9.3.1.
- FVOCI, as explained in Notes 2.9.3.4 and 2.9.3.5
- FVPL, as explained in Note 2.9.3.7

The Bank classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 2.9.3.2 and 2.9.3.3. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 2.9.3.7.

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 2.9.3.7.

2.9.3 Financial Assets and Liabilities

2.9.3.1 Due from banks, loans & advances and financial investments at amortised cost

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.

2.9.3.1.1 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 Bank'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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into accounts. 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.

2.9.3.1.2 The SPPI test
As a second step of its classification process, the Bank assesses the contractual terms of financial assets 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.

2.9.3.2 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 (i.e., the 'underlying').
- 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 16. Changes in the fair value of derivatives are included in 'Net Gains from Trading' in Note 06.

2.9.3.3 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 is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the Statement of Financial Position at fair value. Changes in fair value and dividend income are recognised in 'Net Gains from Trading'. Interest income on held-for-trading assets are recorded in 'Interest Income'.

Included in this classification are debt securities, units and equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

2.9.3.4 Debt instruments at FVOCI
The Bank classifies 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

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 2.9.6.3. 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.

2.9.3.5 Equity instruments at FVOCI

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 '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 or Loss. 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.

2.9.3.6 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 of 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.

2.9.3.7 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 the management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. The management only designates an instrument at FVPL upon initial recognition when one of the following criterion 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 are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

  or

- The liabilities 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.

2.9.3.8 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 SLFRS 9, an ECL provision as set out in Note 29.2.

The premium received is recognised in the Statement of Comprehensive Income (Profit or Loss) in 'Fee and Commission Income' on a straight line basis over the life of the guarantee.

Undrawn loan commitments, financial guarantees and letters of credit 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. 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 loan product and disclosed under Note 18.6.

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 in the Statement of Financial Position. The nominal values of these instruments together with the corresponding ECL's are disclosed in Note 41 and Note 29.2 respectively.

2.9.4 Reclassification of Financial Assets and Liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2020 and 2019.

2.9.5 Derecognition of Financial Assets and Liabilities

2.9.5.1 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 Purchased or Originated Credit Impaired (POCI).

When assessing whether or not to derecognise 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.

2.9.5.2 Derecognition other than for substantial modification

2.9.5.2.1 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 derecognition 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.

2.9.5.2.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

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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.

2.9.6 Impairment of Financial Assets

2.9.6.1 Overview of Expected Credit Loss (ECL) principles

The Bank records an allowance for ECL 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 2.9.6.2. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 37.2.2.5.

The 12mECL is the portion of LTECLs that represents 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 37.2.2.6.

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 37.2.2.5

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 or Stage 3.
- 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. Further the Bank includes credit facilities restructured up to 2 times under Stage 2.
- Stage 3: Loans considered credit impaired (as outlined in Note 37.2.2.1). The Bank records an allowance for the LTECLs. Further the bank includes credit facilities restructured more than 2 times under Stage 3.
- POCI: POCI assets are financial assets that are credit-impaired on initial recognition. They 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.

2.9.6.2 The calculation of ECLs

The Bank calculates ECLs based on a three 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:

- Probability of Default (PD): The PD 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 37.2.2.2.
- Exposure at Default (EAD): The EAD 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 37.2.2.3.
- Loss Given Default (LGD): The 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 EAD. The LGD is further explained in Note 37.2.2.4.

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 37.2.2 and Note 37.2.3. 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 2.9.6.4, 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 2.9.3.8. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in Note 2.9.6.4.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represents 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 expected12-month default probabilities are applied to a forecasted 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 37.2.2.1), the Bank recognises the LTECLs 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:

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'.

2.9.6.2.1 Adjustments to ECL model as a result of COVID-19

In assessing expected credit loss the Bank incorporated the effects of COVID-19 and the Government support measures on a reasonable and supportable basis. Forward looking adjustments have been determined based on economic projections made by credible sources and allocated a higher weightage to downside (worst-case) scenarios in order to reflect the prevailing economic conditions. Further, the Bank has identified several sectors which is affected by COVID-19 directly as high risk sectors and recognised a higher provision for the customers incorporating under them. The Bank has experienced a higher impairment charge during the year compared to prior years as a result of the pandemic.

Further details are found in Note 37.2.7 - Model Adjustments.

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2.9.6.3 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 derecognition of the assets.

2.9.6.4 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.

The on-going 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 37.2.2, 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 37.2.2.6, on an individual basis and on a collective basis. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

2.9.6.5 Forward looking information

The Bank incorporates forward looking information into both its assessment as to whether the credit risk of an instrument has been increased significantly since its initial recognition and its measurement of ECL. When estimating the ECLs, the Bank considers three economic scenarios namely base case, best case and worse case.

Base case scenario

The base case scenario is the Bank's view of the most likely future macroeconomic conditions. It reflects management's assumptions used for strategic planning and budgeting process.

Upside scenario

The upside scenarios is fixed by reference to average economic cycle conditions and is based on a combination of more optimistic economic events over long term horizons.

Downside scenario

The downside scenario is fixed by reference to average economic cycle conditions and is based on a combination of more pessimistic economic events and uncertainty over long term horizons.

Quantitative economic factors are based on economic data and forecasts published by Central Bank of Sri Lanka and international organisations such as International Monetary Fund (IMF). In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

Quantitative factors

- GDP growth
- Unemployment rates
- Exchange rates
- Inflation price indices
- Interest rates

Qualitative factors

- 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 37.2.3.

2.9.7 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, letter of credit/ guarantees, receivables, inventories and other movable & 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.

2.9.8 Collateral Repossessed

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.

2.9.9 Write-offs

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 18.6 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'.

2.9.10 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.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 37.2.2.5 and considers whether the asset 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 forbearance 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 37.2.6.2.

If modifications are substantial, the loan is derecognised, as explained above.

2.9.11 Fair Value Measurement

The Bank measures financial instruments such as financial assets at FVPL, financial assets at FVOCI, 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 Note 36.

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

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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 participants' 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 reassessing 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 includes 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 remeasured or reassessed 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 36.

2.9.12 Off-setting Financial Instruments

Financial assets and financial liabilities are off-set and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to off-set the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.9.13 Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per SLFRS 16 and recognise right-of-use assets and lease liabilities.

2.9.13.1 Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.9.13.1.1 Right-of-Use (ROU) assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-Use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-Use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 22 and are subject to impairment in line with the Bank's policy for Impairment of non-financial assets.

2.9.13.1.2 Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

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

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

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate.

2.9.13.1.4 Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments.

2.9.13.2 Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the Statement of Comprehensive Income (Profit or Loss) due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.9.14 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.

2.9.14.1 The Effective Interest Rate (EIR) method

Interest income is recorded using the EIR method for all financial instruments measured at amortised cost and financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9 is 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 Statement of Financial Position 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).

2.9.14.2 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'asset, the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 37.2.2.1) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

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For purchased or originated credit impaired (POCI) financial assets(as set out in Note 2.9.6.1), 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.

2.9.14.3 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:

2.9.14.3.1 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.

2.9.14.3.2 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.

2.9.14.4 Dividend income

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

2.9.14.5 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 FVPL.

2.9.14.6 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.

2.9.14.7 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 of past services rendered by the employees and the obligation can be measured reliably.

2.9.15 Cash and Cash Equivalents

Cash and cash equivalents as referred to in the Cash Flow Statement comprise 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 within significant risk of changes in value.

2.9.16 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.

2.9.16.1 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.

2.9.16.2 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 Note 2.9.16.5 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.

2.9.16.3 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.

2.9.16.4 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' (OCI) 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' (OCI) to the extent of any credit balance existing in the 'Revaluation Reserve' in respect of that asset. The decrease recognised in 'Other Comprehensive Income' (OCI) 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 derecognition.

2.9.16.5 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 the carrying amount of that item.

2.9.16.6 Derecognitions
The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition 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 derecognised.

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 derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

2.9.16.7 Depreciation
The Bank provides depreciation from the date the assets are available for use upto 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 derecognised. 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

The depreciation method and residual values of assets are reviewed at each financial reporting date 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.

2.9.17 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.

NOTES TO THE FINANCIAL STATEMENTS

The Bank's intangible assets include cost of Core Banking software licenses and other computer software.

2.9.17.1 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.

2.9.17.2 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.

2.9.17.3 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.

2.9.17.4 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 Software 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 is not recognised as part of the cost of that intangible asset at a later date.

2.9.17.5 Retirement and disposal

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition 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.

2.9.18 Other Assets

All other assets are stated at cost less accumulated impairment losses.

2.9.19 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, that 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.

2.9.20 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.

2.9.20.1 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.

2.9.21 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 benefits are 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 41.

2.9.21.1 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 Profit or Loss in the Statement of Comprehensive Income in 'Fee and Commission Income' on a straight-line basis over the life of the guarantee.

2.9.21.2 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.

2.9.22 Employee Retirement Benefits

2.9.22.1 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 'Personnel Expenses' in the Profit or Loss 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'.

2.9.22.2 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, inconformity with LKAS 19 - 'Employee Benefits'. 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.

2.9.23 Other Liabilities

Other liabilities are recorded at the cash value to be paid when settled.

2.9.24 Taxes

2.9.24.1 Current tax

The provision for income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No. 24 of 2017.

Current income tax assets and liabilities for the current and prior years are measured at the 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.

Current income tax relating to items recognised directly in equity is recognised in equity and for items recognised in Other Comprehensive Income (OCI) shall be recognised in Other Comprehensive Income (OCI) and not in Profit or Loss. The management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2.9.24.2 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. The Bank has computed deferred tax at the rates based on substantively enacted rate, which is the statutory rate specified in the Inland Revenue Act as of the reporting date, as the Inland Revenue Department Circular No. PN/IT/2020-03 (Revised) has not been enacted as of the reporting date.

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 future taxable profits 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 profits 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 profits 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.

Deferred tax relating to items recognised directly in equity are also recognised in equity and not in Profit or Loss and for items recognised in Other Comprehensive Income (OCI) shall be recognised in Other Comprehensive Income (OCI) and not in the Profit or Loss.

Deferred tax assets and deferred tax liabilities are off-set 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.

2.9.24.3 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.

2.9.24.4 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.

2.9.25 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.

2.9.26 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 approved after the reporting date are disclosed as an event after the reporting date.

2.9.27 Materiality and Aggregation

Each material class of similar items is presented in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.9.28 Related Party Transactions

Disclosures have been 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.

2.9.29 Events After the Reporting Date

All the material events after end of the reporting period have been considered and appropriate adjustments/disclosures have been made in Note 44 to the Financial Statements.

2.10 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 and SME Banking' segment includes loans, overdrafts, credit card facilities, deposits, current accounts and other services offered to Retail and SME customers.

Treasury and Investments 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.

The 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 counterparty amounted to 10% or more of the Bank's total revenue during the year.

The Bank's segment information is given in Note 46.

2.11 Regulatory Provisions

2.11.1 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 thereto, 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.

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), but are not yet effective as at 31st December 2020.

3.1 Standards Issued But Not Yet Effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of these Financial Statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

SLFRS 17 - Insurance Contracts

SLFRS 17 Insurance Contracts, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 Insurance contracts. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for annual reporting periods beginning on or after 1st January 2023.

Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform (Phase 1 & 2)

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments support companies in applying SLFRS when changes are made to contractual cash flows or hedging relationships because of the reform.

The above mentioned amendments are effective for the annual reporting periods beginning on or after 1st January 2021.

None of the new or amended pronouncements are expected to have a material impact on the Financial Statements of the Bank in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

4 NET INTEREST INCOME

	2020 Rs.	2019 Rs.
Interest Income		
Placements with Banks	4,468,132	8,007,723
Financial Assets at Amortised Cost		
-Loans and Advances	16,228,765,419	16,556,839,163
-Debt and Other Instruments	2,570,586,188	2,674,926,832
Financial Assets at Fair Value through Profit or Loss	17,192,940	176,832,134
	18,821,012,679	19,416,605,852
Interest Expense		
Due to Banks	48,511,579	97,487,310
Financial Liabilities at Amortised Cost		
-Due to Depositors	10,268,946,701	11,044,720,898
-Due to Debt Securities Holders	993,471,776	1,083,315,645
Lease Liabilities (Note 22.2)	87,494,513	101,630,636
Debenture Issued	52,839,452	454,862,881
	11,451,264,021	12,782,017,370
Net Interest Income	7,369,748,658	6,634,588,482

4.1 Net Interest Income from Sri Lanka Government Securities and related Financial Instruments

	2020 Rs.	2019 Rs.
Interest Income	2,443,084,319	2,687,758,966
Interest Expense	(143,902,418)	(256,753,302)
Net Interest Income from Government Securities	2,299,181,901	2,431,005,664

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 Resale Agreements, Sovereign Bonds and other related instruments.

Interest Expense from Sri Lanka Government Securities and related Financial Instruments include Interest Expense for Securities Sold under Repurchase Agreements and other related instruments.

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

4.2 Net Interest Income from Financial Instruments Not Measured at Fair Value through Profit or Loss

	2020 Rs.	2019 Rs.
Interest Income	18,803,819,739	19,239,773,718
Interest Expense	(11,451,264,021)	(12,782,017,370)
Net Interest Income	7,352,555,718	6,457,756,348

4.3 Interest Accrued on Impaired Loans and Advances

The Bank's interest income for the year 2020 includes interest accrued on impaired loans and advances of Rs.27,869,760/- (2019 - Rs.27,993,149/-).

5 NET FEE AND COMMISSION INCOME

	2020 Rs.	2019 Rs.
Net Fee and Commission Income		
Fee and Commission Income	1,346,032,497	1,605,877,008
Fee and Commission Expense	(69,968,642)	(60,559,052)
	1,276,063,855	1,545,317,956
Comprising		
Loans	635,865,158	587,684,697
Cards	301,062,430	547,054,533
Trade and Remittance	223,890,375	283,037,304
Deposits	66,262,340	88,219,941
Guarantees	48,983,552	39,321,481
	1,276,063,855	1,545,317,956

6 NET GAINS FROM TRADING

	2020 Rs.	2019 Rs.
Equities and Unit Trusts		
Realised	255,878,450	195,148,944
Unrealised	-	5,472,280
Debt Securities		
Realised	82,016,493	80,318,320
Unrealised	-	983,125
Foreign Exchange - Net Forward Forex Gain	140,985,087	367,654,207
	478,880,030	649,576,876

6.1 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.

6.2 The Bank does not perform inter-bank 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.

7 OTHER OPERATING INCOME

	2020 Rs.	2019 Rs.
Gains on Revaluation of Foreign Exchange	217,719,988	177,485,418
Recovery of Loans Written-off	13,138,729	44,914,413
Other Income	4,640,494	13,202,491
	235,499,211	235,602,322

NOTES TO THE FINANCIAL STATEMENTS

8 IMPAIRMENT CHARGES

	2020 Rs.	2019 Rs.
Cash and Cash Equivalents (Note 14.1)	1,744,131	1,019,432
Loans and Advances - at Amortised Cost (Note 18.6)	1,345,700,081	1,088,670,967
Debt and Other Instruments - at Amortised Cost (Note 19.4)	242,321,677	42,525,810
Financial Guarantees (Note 29.2)	6,353,111	340,071
Documentary Credit (Note 29.2)	(77,184)	4,286,578
Total Impairment Charge	1,596,041,816	1,136,842,858

Stage wise analysis of Impairment Charge for the year is found in Note 8.1.

8.1 Impairment Charges - Stage wise Analysis

	2020				2019			
	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	1,744,131	-	-	1,744,131	1,019,432	-	-	1,019,432
Loans and Advances - at Amortised Cost	135,066,161	650,553,785	560,080,135	1,345,700,081	(203,310,805)	(102,644,359)	1,394,626,131	1,088,670,967
Debt and Other Instruments - at Amortised Cost	242,321,677	-	-	242,321,677	42,525,810	-	-	42,525,810
Financial Guarantees	6,353,111	-	-	6,353,111	340,071	-	-	340,071
Documentary Credit	(77,184)	-	-	(77,184)	4,286,578	-	-	4,286,578
Total	385,407,896	650,553,785	560,080,135	1,596,041,816	(155,138,914)	(102,644,359)	1,394,626,131	1,136,842,858

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

9 PERSONNEL EXPENSES

	2020 Rs.	2019 Rs.
Salaries, Wages and Other Related Expenses	1,623,406,677	1,671,833,059
Defined Contribution Plan Expenses - Employees' Provident Fund	161,774,157	155,468,333
- Employees' Trust Fund	38,339,411	36,745,697
Defined Benefit Plan Expenses (Note 30.1)	76,041,971	71,936,571
Amortisation of Pre-paid Staff Cost (Note 24.1)	43,202,314	37,325,996
	1,942,764,530	1,973,309,656

10 OTHER OPERATING EXPENSES

	2020 Rs.	2019 Rs.
Directors' Emoluments (Note 10.1)	61,371,960	61,277,062
Auditors' Remuneration	4,883,918	4,798,918
Professional and Legal Expenses	22,286,270	38,899,805
Depreciation on Property, Plant and Equipment (Note 21.2)	154,331,015	147,738,549
Amortisation of Right-of-Use Assets (Note 22.1)	218,662,547	202,526,811
Amortisation of Intangible Assets (Note 23.2)	43,623,519	37,439,104
Administration and Establishment Expenses	640,484,774	650,440,620
Business Development Expenses	239,772,987	378,366,564
Other Expenses (Note 10.2)	907,767,448	1,030,766,502
	2,293,184,438	2,552,253,935

10.1 Directors Emoluments includes Salaries, Bonuses and other related expenses of Chief Executive Officer/Director and fees paid to Non-Executive Directors including the Chairman.

10.2 Other Expense includes expenses incurred for insurance, printing, stationery, telephone & internet bills, travelling & transport, maintenance and other premises and administration purposes.

10.3 The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

11 TAXES AND LEVIES ON FINANCIAL SERVICES

	2020 Rs.	2019 Rs.
Value Added Tax on Financial Services	690,034,538	643,977,952
Nation Building Tax on Financial Services	-	68,157,981
Debt Repayment Levy	-	376,404,255
	690,034,538	1,088,540,188

12 INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31st December 2020 and 31st December 2019 are:

	2020 Rs.	2019 Rs.
Current Tax Expense		
Current Tax Charge of Profit for the Year (Note 12.1)	895,370,632	794,559,093
Over Provisions in respect of Previous Years	(124,566,217)	(239,754,798)
Total Current Tax Expense	770,804,415	554,804,295
Deferred Tax Expense		
Relating to Origination and Reversal of Temporary Differences (Note 12.2)	19,193,642	8,765,609
Total Deferred Tax Expense	19,193,642	8,765,609
Total Income Tax Expense (Profit or Loss) - (Note 12.1)	789,998,057	563,569,904

The income tax liability for the year ended 31st December 2020 have made as per the provisions of the Inland Revenue Act No. 24 of 2017.

NOTES TO THE FINANCIAL STATEMENTS

12.1 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 years ended 31st December 2020 and 31st December 2019 is as follows:

	2020 Rs.	2019 Rs.
Accounting Profit Before Tax	2,838,166,432	2,314,138,999
Statutory Income Tax Rate at 28%	794,686,601	647,958,920
Non Deductible Expenses & Amounts	984,763,254	1,195,617,231
Deductible Expenses & Amounts	(756,016,699)	(983,408,844)
Income not Subject to Tax	(99,183,990)	(65,608,214)
Tax Effect of Business Losses	(28,878,534)	-
Current Tax on Profits	895,370,632	794,559,093
Over Provisions in respect of Previous Years	(124,566,217)	(239,754,798)
Current Tax Expense	770,804,415	554,804,295
Recognition of deferred tax on temporary differences (Note 12.2)	19,193,642	8,765,609
Total Income Tax Expense	789,998,057	563,569,904
Effective Income Tax Rate (Excluding Deferred Tax and Adjustment for Current Income Tax of Prior Years)	31.55%	34.33%
Effective Income Tax Rate (Including Deferred Tax and Adjustment for Current Income Tax of Prior Years)	27.83%	24.35%

12.2 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).

	2020			2019		
	Deferred Tax Liabilities/ (Assets) (Statement of Financial Position)	Statement of Comprehensive Income		Deferred Tax Liabilities/ (Assets) (Statement of Financial Position)	Statement of Comprehensive Income	
		Profit or Loss	Other Comprehensive Income		Profit or Loss	Other Comprehensive Income
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Lease Rentals Receivable	311,560,899	(59,857,996)	-	371,418,895	(90,394,015)	-
Property, Plant and Equipment	474,878,709	(10,938,790)	10,498,087	475,319,412	(5,721,335)	127,426,030
Intangible Assets	61,118,571	(5,088,288)	-	66,206,859	(5,375,538)	-
Defined Benefit Plan Obligation	(107,988,606)	(13,794,332)	(2,637,801)	(91,556,473)	(13,041,482)	1,520,137
Impairment on Financial Assets	(579,735,169)	79,994,514	-	(659,729,683)	123,297,979	-
Tax Losses	-	28,878,534	-	(28,878,534)	-	-
Total	159,834,404	19,193,642	7,860,286	132,780,476	8,765,609	128,946,167

12.3 Impact of Amendments to the Income Tax Law Announced by the Government

As per the Department of Inland Revenue notice dated 12th February 2020, the corporate income tax rate has been reduced from 28% to 24% commencing from the Year of Assessment 2020/21 subject to the ratification of the parliament. The Bank has not considered the consequential impact in computation of income tax and deferred tax liabilities as at 31st December 2020 as the relevant provisions are yet to be legislated.

Had the impact of the proposed reduction been adjusted, the total income tax expense for the year ended 31st December 2020 would have been reduced by Rs.109,002,042/- and deferred tax expense on the items that are routed through other comprehensive income would have been reduced by Rs.41,741,535/-. Further the net deferred tax liability and current tax liabilities as at 31st December 2020 would have been reduced by Rs.22,833,486/- and Rs.127,910,091/- respectively.

13 EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary share holders of the Bank 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 share holders of the 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 shares 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;

	2020	2019
Profit Attributable to Ordinary Shareholders (Rs.)	2,048,168,375	1,750,569,095
Weighted Average Number of Ordinary Shares in Issue (Note 32)	442,561,629	442,561,629
Basic/Diluted Earnings Per Share (Rs.)	4.63	3.96

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 (2019 - Nil).

14 CASH AND CASH EQUIVALENTS

	2020 Rs.	2019 Rs.
Cash in Hand	2,663,079,580	1,475,276,403
Balances with Foreign Banks	254,207,616	234,373,360
Less: Allowance for Expected Credit Losses (Note 14.1)	(3,124,679)	(1,380,548)
	2,914,162,517	1,708,269,215

14.1 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. Accounting policies on Stage Classification of Balances with Foreign Banks and details of ECL calculation methodologies at each Stage are set out in Note 2.9.6.1 and 2.9.6.2.

Stage Classification

	2020 Rs.	2019 Rs.
Balances with Foreign Banks	254,207,616	234,373,360
	254,207,616	234,373,360

All balances held with foreign banks at the year end 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:

NOTES TO THE FINANCIAL STATEMENTS

Gross Carrying Amount

	2020		
	Balance as at 01/01/2020	Net Increase / (Decrease) during the Year	Balance as at 31/12/2020
	Rs.	Rs.	Rs.
Balances with Foreign Banks	234,373,360	19,834,256	254,207,616
	234,373,360	19,834,256	254,207,616

ECL Allowances

	2020		
	ECL Allowances as at 01/01/2020	Net Increase / (Decrease) during the Year	ECL Allowances as at 31/12/2020
	Rs.	Rs.	Rs.
Balances with Foreign Banks	1,380,548	1,744,131	3,124,679
	1,380,548	1,744,131	3,124,679

Gross Carrying Amount

	2019		
	Balance as at 01/01/2019	Net Increase / (Decrease) during the Year	Balance as at 31/12/2019
	Rs.	Rs.	Rs.
Balances with Foreign Banks	820,235,019	(585,861,659)	234,373,360
	820,235,019	(585,861,659)	234,373,360

ECL Allowances

	2019		
	ECL Allowances as at 01/01/2019	Net Increase / (Decrease) during the Year	ECL Allowances as at 31/12/2019
	Rs.	Rs.	Rs.
Balances with Foreign Banks	361,116	1,019,432	1,380,548
	361,116	1,019,432	1,380,548

The increase/(decrease) in ECL's of the portfolio was driven by changes in the composition of the portfolio and changes in PD's.

The maturity analysis of cash and cash equivalents is given in Note 40.

15 BALANCES WITH CENTRAL BANK OF SRI LANKA

	2020	2019
	Rs.	Rs.
Statutory Deposit with Central Bank of Sri Lanka	2,583,393,998	5,333,199,577
	2,583,393,998	5,333,199,577

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 2020 was 2% (2019 - 5%). The Statutory Deposit with CBSL is not available for use in Bank's day-to-day operations.

The maturity analysis of balances with Central Bank of Sri Lanka is given in Note 40.

16 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 year end and are indicative of neither the market risk nor the credit risk.

	2020			2019		
	Assets	Liabilities	Notional Amount (Note 41)	Assets	Liabilities	Notional Amount (Note 41)
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Forward Foreign Exchange Contracts and Currency Swaps	93,012,698	79,005,240	47,076,207,462	443,298	107,293	26,207,546,388
	93,012,698	79,005,240	47,076,207,462	443,298	107,293	26,207,546,388

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 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.

Disclosures concerning the fair value of derivatives are provided in Note 36.

The maturity analysis of derivatives financial assets and liabilities is given in Note 40.

* The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	Rs.	Rs.
Sri Lanka Government Foreign Currency Securities (Note 17.1)	-	168,176,768
	-	168,176,768

17.1 Sri Lanka Government Foreign Currency Securities

	2019	
	Cost Rs.	Fair Value Rs.
Sri Lanka Government Foreign Currency Securities	163,385,951	168,176,768
	163,385,951	168,176,768
Carrying Value		168,176,768

NOTES TO THE FINANCIAL STATEMENTS

17.2 Currency wise Analysis

	2019 Rs.
United States Dollar	168,176,768
	168,176,768

17.3 Collateralisation wise Analysis

	2019 Rs.
Unencumbered	168,176,768
	168,176,768

The maturity analysis of financial assets at fair value through profit or loss is given in Note 40.

18 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES

	2020 Rs.	2019 Rs.
Gross Loans and Advances		
Stage 1 (Note 18.6)	98,077,087,991	92,466,689,776
Stage 2 (Note 18.6)	21,579,352,805	13,985,985,581
Stage 3 (Note 18.6)	11,095,336,899	11,050,500,372
	130,751,777,695	117,503,175,729
Less: Accumulated Impairment for Expected Credit Losses		
Stage 1 (Note 18.6)	(1,116,134,419)	(981,068,258)
Stage 2 (Note 18.6)	(1,147,034,886)	(496,481,101)
Stage 3 (Note 18.6)	(5,331,421,492)	(4,837,771,092)
	(7,594,590,797)	(6,315,320,451)
Net Loans and Advances	123,157,186,898	111,187,855,278

18.1 Product wise Analysis

	2020 Rs.	2019 Rs.
Term Loans	92,181,667,231	76,045,574,825
Overdrafts	13,866,113,574	16,787,688,228
Trade Finance	2,007,922,612	3,664,711,387
Lease Rentals Receivable (Note 42.1)	9,496,584,658	8,627,201,529
Others	13,199,489,620	12,377,999,760
Total	130,751,777,695	117,503,175,729

18.2 Currency wise Analysis

	2020 Rs.	2019 Rs.
Sri Lankan Rupee	120,579,129,107	107,565,116,054
United States Dollar	3,789,294,625	3,904,779,791
Japanese Yen	4,344,439,953	4,495,589,762
Euro	1,904,613,573	1,318,520,888
Great Britain Pound	38,849,854	34,874,447
Others	95,450,583	184,294,787
Total	130,751,777,695	117,503,175,729

18.3 Industry wise Analysis

Industry wise analysis of Loans and Advances are found in Note 37.2.9.2 (Concentration by Industry Sector).

18.4 Collateralisation wise Analysis

	2020 Rs.	2019 Rs.
Pledged as Collateral	1,516,576,552	-
Unencumbered	129,235,201,143	117,503,175,729
	130,751,777,695	117,503,175,729

18.5 Individually Impaired Loans and Advances

	2020 Rs.	2019 Rs.
Gross amount of Loans and Advances, individually determined to be impaired, before deducting Impairment Losses (Note 37.2.7)	4,051,218,142	3,814,610,409
Less: Individual Impairment Losses	(2,974,955,489)	(2,823,009,112)
Net Exposure	1,076,262,653	991,601,297
Impairment Cover Ratio (Individual Impairment Losses to Gross Individually Impaired Loans & Advances)	73.43%	74.01%
Impaired Loans and Advances Ratio (Individually Impaired Loans and Advances to Gross Loans and Advances)	3.10%	3.25%

18.6 Stage Classification of Gross Loans & Advances and ECL Allowances

The tables below show year end Stage Classification of Gross Loans and Advances and ECL Allowances. The amounts presented are gross of impairment allowances. Accounting policies on Stage Classification of Gross Loans and Advances and details of ECL calculation methodologies at each Stage are set out in Notes 2.9.6.1 and 2.9.6.2.

	2020				2019			
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total
Term Loans	72,049,663,911	13,941,375,450	6,190,627,870	92,181,667,231	63,625,104,692	5,402,243,857	7,018,226,276	76,045,574,825
Overdrafts	8,815,012,459	2,530,884,619	2,520,216,496	13,866,113,574	11,484,539,380	3,079,109,829	2,224,039,019	16,787,688,228
Trade Finance	1,484,624,318	84,412,704	438,885,590	2,007,922,612	2,897,209,748	355,312,591	412,189,048	3,664,711,387
Lease Rentals Receivable	5,485,647,902	3,601,251,861	409,684,895	9,496,584,658	3,957,142,209	4,420,942,412	249,116,908	8,627,201,529
Others	10,242,139,401	1,421,428,171	1,535,922,048	13,199,489,620	10,502,693,747	728,376,892	1,146,929,121	12,377,999,760
	98,077,087,991	21,579,352,805	11,095,336,899	130,751,777,695	92,466,689,776	13,985,985,581	11,050,500,372	117,503,175,729

There were no Purchased or Originated Credit Impaired (POCI) assets within Loans and Advances as at the year end (2019-Nil).

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

	2020							
	Stage	Balance as at 01/01/2020	Net Increase/ (Decrease) during the Year*	Transfers to Stage 1	Transfers to Stage 2	Transfers to Stage 3	Amounts written-off during the Year	Balance as at 31/12/2020
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Term Loans	Stage 1	63,625,104,692	14,756,210,918	1,073,734,943	(6,457,984,252)	(947,402,390)	-	72,049,663,911
	Stage 2	5,402,243,857	2,150,565,777	(972,083,038)	7,922,489,954	(561,841,100)	-	13,941,375,450
	Stage 3	7,018,226,276	(769,717,000)	(101,651,906)	(1,464,505,702)	1,509,243,490	(967,288)	6,190,627,870
Overdrafts	Stage 1	11,484,539,380	(1,769,854,572)	804,224,558	(1,502,457,636)	(201,439,271)	-	8,815,012,459
	Stage 2	3,079,109,829	(885,079,351)	(790,252,546)	1,566,057,779	(438,951,092)	-	2,530,884,619
	Stage 3	2,224,039,019	(231,258,490)	(13,972,012)	(63,600,143)	640,390,364	(35,382,242)	2,520,216,496
Trade Finance	Stage 1	2,897,209,748	(1,397,296,949)	-	(213)	(15,288,268)	-	1,484,624,318
	Stage 2	355,312,591	(265,900,603)	-	213	(4,999,497)	-	84,412,704
	Stage 3	412,189,048	6,408,778	-	-	20,287,764	-	438,885,590
Lease Rentals Receivable	Stage 1	3,957,142,209	1,207,815,313	1,108,482,418	(742,836,499)	(44,955,539)	-	5,485,647,902
	Stage 2	4,420,942,412	(275,449,204)	(1,095,984,209)	742,836,499	(191,093,637)	-	3,601,251,861
	Stage 3	249,116,908	(37,401,023)	(12,498,209)	-	236,049,175	(25,581,956)	409,684,895
Others	Stage 1	10,502,693,747	323,649,375	160,133,103	(425,615,128)	(318,721,696)	-	10,242,139,401
	Stage 2	728,376,892	588,947,567	(154,020,610)	428,533,432	(170,409,110)	-	1,421,428,171
	Stage 3	1,146,929,121	(86,608,834)	(6,112,492)	(2,918,304)	489,130,807	(4,498,250)	1,535,922,048
		117,503,175,729	13,315,031,702	-	-	-	(66,429,736)	130,751,777,695

*This includes the effect of new disbursements, utilisations, repayments, settlements as well as effects of movements in foreign exchange rates.

ECL Allowances

	2020				
	Stage	Balance as at 01/01/2020	Charge / (Reversals) during the Year	Amounts Written-Off	Balance as at 31/12/2020
		Rs.	Rs.	Rs.	Rs.
Term Loans	Stage 1	302,431,354	19,815,131	-	322,246,485
	Stage 2	204,547,544	590,818,574	-	795,366,118
	Stage 3	2,260,458,257	(119,250,084)	(967,288)	2,140,240,885
Overdrafts	Stage 1	390,765,170	26,458,800	-	417,223,970
	Stage 2	164,041,750	(927,018)	-	163,114,732
	Stage 3	1,436,745,649	291,819,023	(35,382,242)	1,693,182,430
Trade Finance	Stage 1	6,398,207	18,342	-	6,416,549
	Stage 2	5,928,048	(3,421,719)	-	2,506,329
	Stage 3	185,349,138	13,700,274	-	199,049,412
Lease Rentals Receivable	Stage 1	15,050,554	10,155,062	-	25,205,616
	Stage 2	33,745,664	(3,323,561)	-	30,422,103
	Stage 3	38,075,608	52,805,079	(25,581,956)	65,298,731
Others	Stage 1	266,422,973	78,618,826	-	345,041,799
	Stage 2	88,218,094	67,407,509	-	155,625,604
	Stage 3	917,142,441	321,005,843	(4,498,250)	1,233,650,034
		6,315,320,451	1,345,700,081	(66,429,736)	7,594,590,797

The increase/(decrease) in ECL's of the portfolios were driven by an increase/(decrease) in the gross size of the portfolio/exposures, 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.

Gross Carrying Amount

	Stage	Balance as at 01/01/2019	Net Increase/ (Decrease) during the Year*	Transfers to Stage 1	Transfers to Stage 2	Transfers to Stage 3	Amounts written-off during the Year	Balance as at 31/12/2019
		2019						
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Term Loans	Stage 1	59,608,416,034	5,131,130,320	1,484,587,767	(1,871,609,800)	(727,419,629)	-	63,625,104,692
	Stage 2	6,884,041,583	(1,521,802,652)	(1,402,510,850)	1,952,031,030	(509,515,255)	-	5,402,243,857
	Stage 3	4,378,130,838	1,575,136,268	(82,076,917)	(80,421,230)	1,236,934,884	(9,477,567)	7,018,226,276
Overdrafts	Stage 1	11,958,194,399	96,812,457	1,299,856,196	(1,740,766,400)	(129,557,273)	-	11,484,539,380
	Stage 2	3,927,798,344	(1,106,117,437)	(1,271,506,268)	1,752,951,808	(224,016,618)	-	3,079,109,829
	Stage 3	2,050,824,916	(139,824,451)	(28,349,929)	(12,185,408)	353,573,891	-	2,224,039,019
Trade Finance	Stage 1	2,899,102,317	11,054,123	-	-	(12,946,692)	-	2,897,209,748
	Stage 2	724,630,608	(365,930,583)	-	-	(3,387,434)	-	355,312,591
	Stage 3	413,243,325	(17,388,403)	-	-	16,334,126	-	412,189,048
Lease Rentals Receivable	Stage 1	4,315,257,759	96,102,321	434,163,188	(880,881,952)	(7,499,107)	-	3,957,142,209
	Stage 2	5,007,251,864	(958,204,001)	(431,809,710)	917,181,412	(113,477,153)	-	4,420,942,412
	Stage 3	481,623,226	(226,225,959)	(2,353,478)	(36,299,460)	120,976,260	(88,603,681)	249,116,908
Others	Stage 1	9,385,276,126	1,568,639,909	138,733,622	(383,779,874)	(206,176,036)	-	10,502,693,747
	Stage 2	531,120,374	69,380,166	(130,093,368)	387,116,228	(129,146,508)	-	728,376,892
	Stage 3	929,512,521	(105,097,298)	(8,640,254)	(3,336,354)	335,322,544	(832,037)	1,146,929,121
		113,494,424,234	4,107,664,780	-	-	-	(98,913,285)	117,503,175,729

*This includes the effect of new disbursements, utilisations, repayments, settlements as well as effects of movements in foreign exchange rates.

ECL Allowances

	Stage	Balance as at 01/01/2019	Charge / (Reversals) during the Year	Amounts Written-Off	Balance as at 31/12/2019
		2019			
		Rs.	Rs.	Rs.	Rs.
Term Loans	Stage 1	419,675,798	(117,244,444)	-	302,431,354
	Stage 2	281,524,969	(76,977,425)	-	204,547,544
	Stage 3	1,392,484,642	877,451,182	(9,477,567)	2,260,458,257
Overdrafts	Stage 1	402,000,131	(11,234,961)	-	390,765,170
	Stage 2	191,205,739	(27,163,989)	-	164,041,750
	Stage 3	1,154,135,868	282,609,781	-	1,436,745,649
Trade Finance	Stage 1	8,214,897	(1,816,690)	-	6,398,207
	Stage 2	12,772,003	(6,843,955)	-	5,928,048
	Stage 3	193,404,858	(8,055,720)	-	185,349,138
Lease Rentals Receivable	Stage 1	18,765,598	(3,715,044)	-	15,050,554
	Stage 2	47,641,351	(13,895,687)	-	33,745,664
	Stage 3	112,159,574	14,519,715	(88,603,681)	38,075,608
Others	Stage 1	335,722,638	(69,299,665)	-	266,422,973
	Stage 2	65,981,398	22,236,696	-	88,218,094
	Stage 3	689,873,305	228,101,173	(832,037)	917,142,441
		5,325,562,769	1,088,670,967	(98,913,285)	6,315,320,451

The increase/(decrease) in ECL's of the portfolios were driven by an increase/(decrease) in the gross size of the portfolio/exposures, 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. The maturity analysis of loans and advances at amortised cost is given in Note 40.

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

NOTES TO THE FINANCIAL STATEMENTS

19 FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

	2020 Rs.	2019 Rs.
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds (Note 19.4)	19,905,414,402	12,857,565,412
Debentures - Quoted (Note 19.4)	-	1,619,436,757
Less: Allowance for Impairment Losses (Note 19.4)	-	(1,021,292)
Securities Purchased Under Resale Agreements (Note 19.3/Note 19.4)	1,530,441,419	63,557,464
Standing Deposit Facilities (Note 19.4)	7,720,954,396	-
Sri Lanka Government Foreign Currency Securities (Note 19.4)	14,731,760,180	15,665,886,271
Less: Allowance for Impairment Losses (Note 19.4)	(368,679,120)	(125,336,151)
	43,519,891,277	30,080,088,461

19.1 Currency wise Analysis (Gross)

	2020 Rs.	2019 Rs.
Sri Lankan Rupee	29,156,810,217	14,540,559,633
United States Dollar	14,731,760,180	15,665,886,271
	43,888,570,397	30,206,445,904

19.2 Collateralisation wise Analysis (Gross)

	2020 Rs.	2019 Rs.
Pledged as Collateral	883,100,000	2,411,961,297
Unencumbered	43,005,470,397	27,794,484,607
	43,888,570,397	30,206,445,904

19.3 Securities Purchased Under Resale Agreements

	2020 Rs.	2019 Rs.
With Other Customers	1,530,441,419	63,557,464
	1,530,441,419	63,557,464

The Bank holds collateral against reverse repurchase agreements and is permitted to sell or repledge the collateral in case of a default by the owner of the collateral. The fair value of collateral held under reverse repurchase agreements by the Bank amounts to Rs.1,727,801,842/- (2019 - Rs.104,906,300/-).

19.4 Stage Classification of Gross Debt and Other Instruments and ECL Allowances

The table below shows the product and year end Stage Classification of Gross Debt and Other Instruments. The amounts presented are gross of impairment allowances. Accounting policies on Stage Classification of Gross Debt and Other instruments and details of ECL calculation methodologies at each Stage are set out in Notes 2.9.6.1 and 2.9.6.2.

Stage Classification

	2020		2019	
	Stage 1	Total	Stage 1	Total
	Rs.	Rs.	Rs.	Rs.
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	19,905,414,402	19,905,414,402	12,857,565,412	12,857,565,412
Quoted Debentures	-	-	1,619,436,757	1,619,436,757
Securities Purchased under Resale Agreements	1,530,441,419	1,530,441,419	63,557,464	63,557,464
Standing Deposit Facilities	7,720,954,396	7,720,954,396	-	-
Sri Lanka Government Foreign Currency Securities*	14,731,760,180	14,731,760,180	15,665,886,271	15,665,886,271
	43,888,570,397	43,888,570,397	30,206,445,904	30,206,445,904

All Debt Instruments at Amortised Cost outstanding at the year end are 'Stage 1' assets.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Debt and Other Instruments at Amortised Cost is, as follows:

Gross Carrying Amount

	2020			2019		
	Balance as at 01/01/2020	Net Increase / (Decrease) During the Year	Balance as at 31/12/2020	Balance as at 01/01/2019	Net Increase / (Decrease) During the Year	Balance as at 31/12/2019
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	12,857,565,412	7,047,848,990	19,905,414,402	20,874,625,206	(8,017,059,794)	12,857,565,412
Debentures - Quoted	1,619,436,757	(1,619,436,757)	-	1,619,436,757	-	1,619,436,757
Securities Purchased under Resale Agreements	63,557,464	1,466,883,955	1,530,441,419	848,270,844	(784,713,380)	63,557,464
Standing Deposit Facilities	-	7,720,954,396	7,720,954,396	-	-	-
Sri Lanka Government Foreign Currency Securities*	15,665,886,271	(934,126,091)	14,731,760,180	10,816,056,405	4,849,829,866	15,665,886,271
	30,206,445,904	13,682,124,493	43,888,570,397	34,158,389,212	(3,951,943,308)	30,206,445,904

ECL Allowances

	2020			2019		
	Balance as at 01/01/2020	Charge/ (Reversal) During the Year	Balance as at 31/12/2020	Balance as at 01/01/2019	Charge/ (Reversal) During the Year	Balance as at 31/12/2019
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Debentures - Quoted	1,021,292	(1,021,292)	-	626,588	394,704	1,021,292
Sri Lanka Government Foreign Currency Securities*	125,336,151	243,342,969	368,679,120	83,205,045	42,131,106	125,336,151
	126,357,443	242,321,677	368,679,120	83,831,633	42,525,810	126,357,443

The changes in ECLs of the portfolio is driven by increase /(decrease) in the gross size of the portfolio, changes in default probabilities (PD's) and deterioration of economic conditions.

The maturity analysis of debt and other instruments at amortised cost is given in Note 40.

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

* Sri Lanka Government Foreign Currency Securities included investment in Sri Lanka Development Bonds (SLDB) and Sri Lanka Sovereign Bonds (SLSB).

NOTES TO THE FINANCIAL STATEMENTS

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 Rs.	2019 Rs.
Equities - Unquoted (Note 20.1)	6,157,847	6,157,847
	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 instruments, and the Bank intends to hold these for long term.

20.1 Equities - Unquoted

	2020		2019	
	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

20.2 Currency wise Analysis (Gross)

	2020 Rs.	2019 Rs.
Sri Lankan Rupee	6,157,847	6,157,847
	6,157,847	6,157,847

20.3 Collateralisation wise Analysis (Gross)

	2020 Rs.	2019 Rs.
Unencumbered	6,157,847	6,157,847
	6,157,847	6,157,847

The maturity analysis of financial assets at fair value through other comprehensive income is given in Note 40.

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

21 PROPERTY, PLANT AND EQUIPMENT

21.1 Cost/Fair Value

	Freehold Land Rs.	Freehold Buildings Rs.	Office Equipments Rs.	Computer Hardware & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
At 1st January 2020	1,402,160,000	481,575,000	430,710,693	517,703,302	679,217,554	20,297,620	3,531,664,169
Additions	-	-	16,473,596	50,216,232	25,499,893	-	92,189,721
Revaluation	17,940,000	6,213,000	-	-	-	-	24,153,000
Disposals	-	-	(6,174,232)	(741,785)	(10,893,817)	-	(17,809,834)
At 31st December 2020	1,420,100,000	487,788,000	441,010,057	567,177,749	693,823,630	20,297,620	3,630,197,056

21.2 Depreciation and Impairment

	Freehold Land	Freehold Buildings	Office Equipments	Computer Hardware & Equipments	Furniture & Fittings	Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At 1st January 2020	-	-	331,016,086	375,490,071	477,295,945	13,900,954	1,197,703,056
Depreciation Charge for the Year (Note 10)	-	17,973,077	28,880,548	47,450,878	55,986,512	4,040,000	154,331,015
Revaluation	-	(13,340,169)	-	-	-	-	(13,340,169)
Disposals	-	-	(5,961,936)	(741,785)	(9,674,663)	-	(16,378,384)
At 31st December 2020	-	4,632,908	353,934,698	422,199,164	523,607,794	17,940,954	1,322,315,518

There were no impairment losses recognised on Property, Plant and Equipment as at 31st December 2020. (2019-Nil).

21.3 Net Book Value

	Freehold Land	Freehold Buildings	Office Equipments	Computer Hardware & Equipments	Furniture & Fittings	Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At 31st December 2019	1,402,160,000	481,575,000	99,694,607	142,213,231	201,921,609	6,396,666	2,333,961,113
At 31st December 2020	1,420,100,000	483,155,092	87,075,359	144,978,585	170,215,836	2,356,666	2,307,881,538

21.4 There were no capital work in progress outstanding as at the Statement of Financial Position Date. (2019- Nil)

21.5 Freehold Land and Building - Addresses, Locations and Extents

Address	Extent		31st December 2020 Revalued Amount		31st December 2019 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	561,925,000	472,188,000	556,010,000	465,975,000
No: 08, Sea Avenue, Colombo 03	18.55	-	338,537,500	-	333,900,000	-
No: 10, Sea Avenue, Colombo 03	19.80	-	351,450,000	-	346,500,000	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03	9.75	3,900	168,187,500	15,600,000	165,750,000	15,600,000
Total (Note 36.2)			1,420,100,000	487,788,000	1,402,160,000	481,575,000

21.6 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 21.8. Revaluation surplus arising out of the revaluation has been transferred to Revaluation Reserve.

Significant Un Observable valuation Input
Land: Price Per Perch Rs.17,250,000 - Rs.23,750,000
Building : Monthly rent per square feet - Rs.177.50

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 Buildings are provided in Note 36.2.

NOTES TO THE FINANCIAL STATEMENTS

21.7 The carrying amount of Revalued Land and Building, if they were carried at cost less depreciation, would be as follows;

	2020			2019		
	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	74,852,951	148,399,576	223,252,527	69,271,638	153,980,889
Total	636,905,085	74,852,951	562,052,134	636,905,085	69,271,638	567,633,447

21.8 Details of the Land and Building stated at revalued amounts as at 31st December 2020 are given below;

Location/Address	Valuer Name	Date of Valuation	Method of Valuation	Land		Building	
				Cost	Revalued Amount	Cost	Revalued Amount
				Rs.	Rs.	Rs.	Rs.
No 450, Galle Road, Colombo 03	Mr.J.M.S.Bandara	30th September 2020	Investment Method/ Income Method	183,969,895	561,925,000	212,332,737	472,188,000
No: 08, Sea Avenue, Colombo 03				106,166,453	338,537,500	-	-
No: 10, Sea Avenue, Colombo 03	Mr.J.M.S.Bandara	30th September 2020	Investment Method/ Income Method	82,437,000	351,450,000	-	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03				41,079,210	168,187,500	10,919,790	15,600,000

21.9 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;

	2020	2019
	Rs.	Rs.
Office Equipments	270,276,941	258,525,046
Computer Hardware and Equipments	219,675,162	208,049,923
Furniture & Fittings	288,060,579	265,602,420
Motor Vehicles	97,620	97,620
	778,110,302	732,275,009

21.10 There were no Property, Plant and Equipment identified as temporarily idle as at the date of the Statement of Financial Position (2019-Nil).

21.11 The following Property, Plant and Equipment were retired from active use as at the date of the Statement of Financial Position.

	2020	2019
	Rs.	Rs.
Computer Hardware and Equipments	16,626,741	17,368,526

21.12 There were no restrictions on the title of Property, Plant and Equipment as at the date of the Statement of Financial Position (2019 - Nil).

21.13 There were no items of Property, Plant and Equipments pledged as securities against liabilities as at the date of the Statement of Financial Position (2019 - Nil).

22 RIGHT-OF-USE ASSETS

22.1 Assets hold under lease have been recognised as Right-of-Use Assets under SLFRS 16.

	2020 Rs.	2019 Rs.
As at 1st January	911,836,800	1,086,495,125
Impact of New Leases	449,546,874	27,868,486
Leases Expired during the Year	(159,355,837)	-
Amortisation Charge for the Year (Note 10)	(218,662,547)	(202,526,811)
As at 31st December	983,365,290	911,836,800

22.2 Corresponding lease liability for the Right-of-Use assets has been recognised under other liabilities.

	2020 Rs.	2019 Rs.
As at 1st January	824,180,213	1,006,839,907
Impact of New Leases	429,616,874	23,711,120
Accretion of Interest (Note 4)	87,494,513	101,630,636
Leases Expired during the Year	(172,544,752)	-
Rentals Paid during the year	(280,721,522)	(308,001,450)
As at 31st December (Note 29)	888,025,326	824,180,213

22.3 Maturity Analysis of Lease Liability

	2020			
	Amount Repayable within 1 Year Rs.	Amount Repayable after 1 Year but less than 5 Years Rs.	Amount Repayable after 5 Years Rs.	Total Rs.
Gross Lease	333,308,613	962,505,489	165,171,669	1,460,985,771
Finance Charges Allocated to Future Periods	(130,714,929)	(377,469,503)	(64,776,013)	(572,960,445)
Net Lease Liabilities	202,593,684	585,035,986	100,395,656	888,025,326

	2019			
	Amount Repayable within 1 Year Rs.	Amount Repayable after 1 Year but less than 5 Years Rs.	Amount Repayable after 5 Years Rs.	Total Rs.
Gross Lease	247,251,661	820,012,540	117,409,376	1,184,673,577
Finance Charges Allocated to Future Periods	(53,383,442)	(268,645,295)	(38,464,627)	(360,493,364)
Net Lease Liabilities	193,868,219	551,367,245	78,944,749	824,180,213

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

NOTES TO THE FINANCIAL STATEMENTS

22.4 Sensitivity on Assumption in Right-of-Use Assets

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the Right-of-Use Assets and Lease Liabilities as at 31st December 2020. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the incremental borrowing rate on the Profit or Loss and Right-of-Use Assets/ Lease Liabilities for the year.

	2020			
	Sensitivity Effect on Statement of Financial Position		Sensitivity Effect on Statement of Comprehensive Income	
	Right-of-Use Assets	Lease Liabilities	Depreciation	Interest Expense
	Rs.	Rs.	Rs.	Rs.
Increase/(Decrease) in Incremental Borrowing Rate				
1%	(35,190,342)	(35,248,310)	(4,517,126)	5,342,936
(1%)	36,923,659	37,001,155	4,700,182	(5,767,769)

	2019			
	Sensitivity Effect on Statement of Financial Position		Sensitivity Effect on Statement of Comprehensive Income	
	Right-of-Use Assets	Lease Liabilities	Depreciation	Interest Expense
	Rs.	Rs.	Rs.	Rs.
Increase/(Decrease) in Incremental Borrowing Rate				
1%	(23,840,210)	(21,472,422)	(4,628,330)	6,636,158
(1%)	24,944,081	22,349,103	4,434,074	(7,029,052)

23 INTANGIBLE ASSETS

Computer Software

23.1 Cost

	Total
	Rs.
As at 1st January 2020	572,636,454
Additions	109,469,035
Disposals	-
As at 31st December 2020	682,105,489

23.2 Amortisation

	Total
	Rs.
As at 1st January 2020	291,784,480
Amortisation Charge for the Year (Note 10)	43,623,519
Disposals	-
As at 31st December 2020	335,407,999

23.3 Net Book Value

	Total
	Rs.
As at 31st December 2019	280,851,974
As at 31st December 2020	346,697,490

23.4 Intangible Assets include the cost of Core Banking Software Licenses and Other Software.

23.5 There were no Intangible Asset items pledged as a security against liabilities as at the date of the Statement of Financial Position (2019 - Nil).

23.6 There were no borrowing costs directly related to intangible assets acquired during the year (2019 - Nil).

23.7 There were no impairment losses recognised to Profit or Loss during the year with regard to Intangible Assets (2019 - Nil).

24 OTHER ASSETS

	2020 Rs.	2019 Rs.
Deposits and Prepayments	206,344,590	294,257,310
Pre-paid Staff Cost (Note 24.1)	389,588,401	408,030,803
Other Receivables (Note 24.2)	432,725,014	266,567,032
	1,028,658,005	968,855,145

24.1 The movement in Pre-Paid Staff Cost during the year is as follows;

	2020 Rs.	2019 Rs.
As at 1st January	408,030,803	328,140,367
Arose due to new granting	53,873,571	161,044,544
Reversals due to settlements	(29,113,659)	(43,828,112)
Amortisation charge for the year (Note 9)	(43,202,314)	(37,325,996)
As at 31st December	389,588,401	408,030,803

24.2 Other receivables include statutory receivables and other balances due in the ordinary course of business.

25 DUE TO BANKS

	2020 Rs.	2019 Rs.
Call Money Borrowings	755,245,573	136,045,959
Refinance Borrowings	2,072,753,458	216,860,262
Balances with Foreign Banks	35,377,383	168,930,121
	2,863,376,414	521,836,342

The Bank has not had any defaults with regard to capital, interest or any other term/condition of above borrowings during the year (2019-Nil).

The maturity analysis of due to banks is given in Note 40.

26 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS

	2020 Rs.	2019 Rs.
Due to Depositors (Note 26.1 and Note 26.2)	141,079,707,186	122,544,024,040
	141,079,707,186	122,544,024,040

NOTES TO THE FINANCIAL STATEMENTS

26.1 Product wise Analysis

	2020 Rs.	2019 Rs.
Demand Deposits	5,847,738,596	4,375,635,515
Savings Deposits	28,339,135,902	16,910,775,122
Time Deposits	102,766,775,675	97,528,927,459
Certificate of Deposits	3,825,672,304	3,521,230,309
Margin Deposits	300,384,709	207,455,635
	141,079,707,186	122,544,024,040

26.2 Currency wise Analysis

	2020 Rs.	2019 Rs.
Sri Lankan Rupee	131,388,841,625	111,342,539,400
United States Dollar	7,789,043,142	8,940,127,518
Great Britain Pound	473,084,858	1,128,330,753
Australian Dollar	-	658,804,827
Euro	339,623,755	313,583,868
Others	1,089,113,806	160,637,674
	141,079,707,186	122,544,024,040

The maturity analysis of financial liabilities at amortised cost - due to depositors is given in Note 40.

27 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEBT SECURITIES HOLDERS

	2020 Rs.	2019 Rs.
Securities Sold under Repurchase Agreements (Note 27.1)	898,650,695	2,382,654,921
Unsecured Term Facility Borrowings	10,637,140,456	9,512,176,841
Standing Lending Facility Borrowings	-	50,010,989
	11,535,791,151	11,944,842,751

The Bank has not had any defaults with regard to capital, interest or any other term/condition of above borrowings during the year. (2019-Nil)

27.1 Securities Sold under Repurchase Agreements

	2020 Rs.	2019 Rs.
Due to Customers	898,650,695	2,382,654,921
	898,650,695	2,382,654,921

27.2 Unsecured Term Facility Borrowings - Capital

	Senior		Total
	Fixed	Floating	
	Rs.	Rs.	Rs.
As at 1st January 2020	2,061,094,225	7,437,785,000	9,498,879,225
Received during the Year	2,090,350,000	2,000,000,000	4,090,350,000
Repayments during the Year	-	(3,176,560,000)	(3,176,560,000)
Effect of movement in Foreign Exchange Rate	-	163,275,000	(163,275,000)
As at 31st December 2020 (Note 27.3)	4,151,444,225	6,424,500,000	10,575,944,225

27.3 Details of Unsecured Term Facility Borrowings as at 31st December 2020 - Capital

Lender	Receipt Date	Maturity Date	Rate of Interest	Amount Outstanding Original Currency	Amount Outstanding Local Currency (Rs.)
GCPF	03rd September 2015	2nd September 2022	6 Month LIBOR + 4%	USD 10,000,000	1,876,000,000
GCPF	06th October 2017	7th October 2024	6 Month LIBOR + 3.75%	USD 2,000,000	375,200,000
GCPF	22nd December 2017	7th October 2024	6 Month LIBOR + 3.75%	USD 5,000,000	938,000,000
MSME	19th December 2016	18th December 2021	3 Month LIBOR + 4%	USD 9,250,000	1,735,300,000
MSME	21st December 2016	19th July 2021	11.50%	Rs.1,191,000,000	1,191,000,000
MSME	9th July 2018	29th September 2021	11.25%	Rs.870,094,225	870,094,225
MSME	6th August 2020	6th August 2024	5.10%	USD 3,500,000	656,600,000
MSME	16th June 2020	16th June 2024	10.00%	Rs.1,433,750,000	1,433,750,000
National Savings Bank	30th March 2020	30th March 2021	Weekly AWPLR + 2% (Re-priced semi annually)	Rs.250,000,000	250,000,000
National Savings Bank	30th March 2020	30th September 2021	Weekly AWPLR + 2% (Re-priced semi annually)	Rs.250,000,000	250,000,000
National Savings Bank	30th March 2020	30th March 2022	Weekly AWPLR + 2% (Re-priced semi annually)	Rs.250,000,000	250,000,000
National Savings Bank	28th April 2020	30th March 2021	Weekly AWPLR + 2% (Re-priced semi annually)	Rs.250,000,000	250,000,000
National Savings Bank	28th April 2020	30th September 2021	Weekly AWPLR + 2% (Re-priced semi annually)	Rs.250,000,000	250,000,000
National Savings Bank	28th April 2020	30th March 2022	Weekly AWPLR + 2% (Re-priced semi annually)	Rs.250,000,000	250,000,000
					10,575,944,225

GCPF - Global Climate Partnership Fund S.A. SICAV-SIF
MSME - Micro, Small & Medium Enterprises Bonds S.A.

The maturity analysis of financial liabilities at amortised cost - due to debt securities holders is given in Note 40.

28 OTHER PROVISIONS AND ACCRUALS

	2020 Rs.	2019 Rs.
Utility Payables	97,754,574	86,377,769
Other Accruals	113,109,085	101,224,830
	210,863,659	187,602,599

29 OTHER LIABILITIES

	2020 Rs.	2019 Rs.
Cheques Pending Realisation	9,307,108	4,492,219
Claims Payable	248,096,163	242,528,920
Allowance for Impairment (ECL) on Financial Guarantees and Documentary Credit (Note 29.2)	19,302,891	13,026,964
Defined Benefit Plan - Retiring Gratuity Obligation (Note 30.2)	385,673,593	326,987,404
Lease Liabilities (Note 22.2)	888,025,326	824,180,213
Other Creditors (Note 29.1)	2,366,314,695	2,156,210,671
	3,916,719,776	3,567,426,391

NOTES TO THE FINANCIAL STATEMENTS

29.1 Other creditors include tax (other than income tax) and other statutory payables and other miscellaneous payables in the ordinary course of business.

29.2 Provision for Impairment (ECL) on Financial Guarantees and Documentary Credit

	ECL Allowances as at 01/01/2020	Charge/ (Reversal) for the Year	ECL Allowances as at 31/12/2020	ECL Allowances as at 01/01/2019	Charge/ (Reversal) for the Year	ECL Allowances as at 31/12/2019
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Guarantees	6,848,683	6,353,111	13,201,794	6,508,612	340,071	6,848,683
Documentary Credit	6,178,281	(77,184)	6,101,097	1,891,703	4,286,578	6,178,281
	13,026,964	6,275,927	19,302,891	8,400,315	4,626,649	13,026,964

The nominal values of Financial Guarantees and Documentary Credit are disclosed in Note 41.

All Financial Guarantees and Documentary Credit outstanding at the year end are 'Stage 1' exposures.

The changes in ECLs of the Financial Guarantees and Documentary Credit were driven by the changes in gross size of the portfolios, changes in PDs, LGDs, CCFs and changes in economic conditions.

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

30 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;

30.1 Defined Benefit Plan Expenses

	2020	2019
	Rs.	Rs.
Current Service Cost (Note 30.2)	43,343,230	37,635,802
Interest Cost (Note 30.2)	32,698,741	34,300,769
Components recognised in the Profit or Loss (Note 9)	76,041,971	71,936,571
Remeasurement of Net Defined Benefit Obligations		
Actuarial (Gains)/Losses (Note 30.2)	9,420,718	(5,429,059)
Components recognised in Other Comprehensive Income	9,420,718	(5,429,059)

30.2 Defined Benefit Plan - Retiring Gratuity Obligation

The movements in the present value of the Defined Benefit Plan Obligation are as follows;

	2020	2019
	Rs.	Rs.
As at 1st January	326,987,404	285,839,742
Current Service Cost	43,343,230	37,635,802
Interest Cost	32,698,741	34,300,769
Actuarial (Gains)/Losses due to Changes in Assumptions	9,420,718	(5,429,059)
Benefits Paid during the Year	(26,776,500)	(25,359,850)
As at 31st December	385,673,593	326,987,404

Actuarial Valuation of Retiring Gratuity Obligation as at 31st December 2020 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;

	2020	2019
Discount Rate	7% p.a	10% p.a
Salary Increment Rate	6% p.a	8% p.a

The demographic assumptions underlying the valuation are retirement age (55 years), staff turnover rate (15%), 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 issued by the Institute of Actuaries, London.

Defined Benefit Plan Obligation is not externally funded, hence no contributions are expected for the year 2020. 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.

30.3 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 Obligation measurement as at 31st December 2020. 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.

		2020		2019	
Increase/(Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income (OCI)	Sensitivity Effect on Defined Benefit Obligation	Sensitivity Effect on Statement of Comprehensive Income (OCI)	Sensitivity Effect on Defined Benefit Obligation
		Rs.	Rs.	Rs.	Rs.
1%	-	17,111,092	(17,111,092)	13,824,240	(13,824,240)
(1%)	-	(18,824,030)	18,824,030	(15,133,669)	15,133,669
-	1%	(20,639,684)	20,639,684	(16,775,545)	16,775,545
-	(1%)	19,083,049	(19,083,049)	15,567,793	(15,567,793)

30.4 Maturity Profile of Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at the date of Statement of Financial Position is given below;

	2020	2019
Weighted Average Duration of Defined Benefit Obligation (Years)	5.73	4.57
Average Time to Benefit Payout (Years)	6.10	6.16

30.5 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 date of the Statement of Financial Position.

	2020	2019
	Rs.	Rs.
Less than 1 year	24,888,403	11,866,498
Between 1 - 2 years	8,266,994	16,860,060
Between 2 - 5 years	96,390,846	78,287,596
Over 5 years	256,127,350	219,973,250
	385,673,593	326,987,404

NOTES TO THE FINANCIAL STATEMENTS

31 DEBENTURES ISSUED

31.1 Amortised Cost

	2020 Rs.	2019 Rs.
Unlisted, Unsecured, Subordinated, Redeemable Debentures	872,839,452	-
	872,839,452	-

All the above debentures are denominated in Sri Lankan Rupees.

31.2 Debentures Issued - Capital

	Subordinated		Senior		Total
	Fixed Rs.	Floating Rs.	Fixed Rs.	Floating Rs.	Rs.
As at 1st January 2020	-	-	-	-	-
Issued during the year	820,000,000	-	-	-	820,000,000
As at 31st December 2020	820,000,000	-	-	-	820,000,000

31.3 Unlisted, Unsecured, Subordinated, Redeemable Debentures

2020/25 Issue

Debentures outstanding as at 31st December 2020, includes of 8,200,000 Unlisted, Unsecured, Subordinated, Redeemable Debentures of Rs.100/- each issued by the Bank in 2020, details of which are given below:

Debenture Category	Interest Rate	Interest Payable Frequency	Issued Date	Maturity Date	Face Value Rs.
2020/25 - Fixed Rate	14% p.a	Semi-Annually	17.07.2020	16.07.2025	820,000,000

The Bank has not had any defaults with regard to capital, interest or any other term/condition of above debentures during the year. (2019 - Nil)

The maturity analysis of debentures issued is given in Note 40.

32 STATED CAPITAL

Ordinary Voting Shares

	2020		2019	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
As at 1st January	442,561,629	3,614,253,304	442,561,629	3,614,253,304
Shares Issued during the Year	-	-	-	-
As at 31st December	442,561,629	3,614,253,304	442,561,629	3,614,253,304

33 REVALUATION RESERVE

	Rs.
As at 1st January 2019	623,812,541
Revaluation of Freehold Land and Building	327,666,933
Realisation of Revaluation Reserve	(6,820,753)
As at 1st January 2020	944,658,721
Revaluation of Freehold Land and Building	26,995,082
Realisation of Revaluation Reserve	(8,932,789)
As at 31st December 2020	962,721,014

34 STATUTORY RESERVE FUND

	Rs.
As at 1st January 2019	451,188,593
Transferred during the Year	87,528,455
As at 1st January 2020	538,717,048
Transferred during the Year	102,408,419
As at 31st December 2020	641,125,467

34.1 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 should be transferred to the Statutory Reserve Fund until the reserve is equal to 50% of the stated capital of the Bank and thereafter a sum equivalent to 2% of such profits until the amount of reserve is equal to the stated capital of the Bank. This Statutory Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

35 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 headings;

As at 31st December 2020	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	-	-	2,914,162,517	-	2,914,162,517
Balances with Central Bank of Sri Lanka	-	-	2,583,393,998	-	2,583,393,998
Derivative Financial Instruments	-	-	-	93,012,698	93,012,698
Loans and Advances	-	-	123,157,186,898	-	123,157,186,898
Debt and Other Instruments	-	-	43,519,891,277	-	43,519,891,277
Financial Assets at FVOCI	-	6,157,847	-	-	6,157,847
Total Financial Assets	-	6,157,847	172,174,634,690	93,012,698	172,273,805,235
Financial Liabilities					
Due to Banks	-	-	2,863,376,414	-	2,863,376,414
Derivative Financial Instruments	-	-	-	79,005,240	79,005,240
Due to Depositors	-	-	141,079,707,186	-	141,079,707,186
Due to Debt Securities Holders	-	-	11,535,791,151	-	11,535,791,151
Debenture Issued	-	-	872,839,452	-	872,839,452
Other Liabilities	-	-	935,469,542	-	935,469,542
Total Financial Liabilities	-	-	157,287,183,745	79,005,240	157,366,188,985

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2019	Financial Assets at Fair Value through Profit or Loss Rs.	Financial Assets at Fair Value through Other Comprehensive Income Rs.	Financial Assets and Liabilities at Amortised Cost Rs.	Derivative Financial Instruments at Fair Value Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	1,708,269,215	-	1,708,269,215
Balances with Central Bank of Sri Lanka	-	-	5,333,199,577	-	5,333,199,577
Derivative Financial Instruments	-	-	-	443,298	443,298
Financial Assets at FVPL	168,176,768	-	-	-	168,176,768
Loans and Advances	-	-	111,187,855,278	-	111,187,855,278
Debt and Other Instruments	-	-	30,080,088,461	-	30,080,088,461
Financial Assets at FVOCI	-	6,157,847	-	-	6,157,847
Total Financial Assets	168,176,768	6,157,847	148,309,412,531	443,298	148,484,190,444
Financial Liabilities					
Due to Banks	-	-	521,836,342	-	521,836,342
Derivative Financial Instruments	-	-	-	107,293	107,293
Due to Depositors	-	-	122,544,024,040	-	122,544,024,040
Due to Debt Securities Holders	-	-	11,944,842,751	-	11,944,842,751
Other Liabilities	-	-	863,074,300	-	863,074,300
Total Financial Liabilities	-	-	135,873,777,433	107,293	135,873,884,726

36 FAIR VALUE OF FINANCIAL INSTRUMENTS

36.1 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. The most frequently applied valuation techniques include forward exchange spot and forward premiums.

(b) Financial Assets at Fair Value through Other Comprehensive Income

Financial Assets at Fair Value through Other Comprehensive Income are valued using valuation techniques or pricing models primarily consist of unquoted equities.

(c) Financial Assets at Fair Value through Profit or Loss

Quoted Equities and Sri Lanka Government Securities included in Financial Assets at Fair Value through Profit or Loss. Sri Lanka Government Securities are valued using yield curves published by Central Bank of Sri Lanka. The Bank uses quoted market prices in the active market as at the reporting date for Quoted Equities.

36.2 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 2020	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	93,012,698	-	93,012,698
Financial Assets at FVOCI	-	6,157,847	-	6,157,847
	-	99,170,545	-	99,170,545
Non-Financial Assets				
Land - Revalued (Note 21.5)	-	-	1,420,100,000	1,420,100,000
Building - Revalued	-	-	483,155,092	483,155,092
	-	-	1,903,255,092	1,903,255,092
Financial Liabilities				
Derivative Financial Instruments	-	79,005,240	-	79,005,240
	-	79,005,240	-	79,005,240

As at 31st December 2019	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	443,298	-	443,298
Financial Assets at Fair Value through Profit or Loss				
Sri Lanka Government Foreign Currency Securities - SLSBs	168,176,768	-	-	168,176,768
Financial Assets at FVOCI	-	6,157,847	-	6,157,847
	168,176,768	6,601,145	-	174,777,913
Non-Financial Assets				
Land - Revalued (Note 21.5)	-	-	1,402,160,000	1,402,160,000
Building - Revalued	-	-	481,575,000	481,575,000
	-	-	1,883,735,000	1,883,735,000
Financial Liabilities				
Derivative Financial Instruments	-	107,293	-	107,293
	-	107,293	-	107,293

NOTES TO THE FINANCIAL STATEMENTS

b) The following table shows the fair value gains recognised in Profit or Loss during the year relating to financial assets and liabilities at fair value through profit or loss.

	2020 Rs.	2019 Rs.
Financial Assets		
Derivative Financial Instruments	13,671,454	240,539
Financial Assets at Fair Value through Profit or Loss		
Equities (Note 6)	-	5,472,280
Sri Lanka Government Foreign Currency Securities (Note 6)	-	983,125
	13,671,454	6,695,944

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

36.3 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 Resale Agreements. This assumption is also applied to demand deposits and 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 financial 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.

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	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Financial Assets				
Cash and Cash Equivalents	2,914,162,517	2,914,162,517	1,708,269,215	1,708,269,215
Balances with Central Bank of Sri Lanka	2,583,393,998	2,583,393,998	5,333,199,577	5,333,199,577
Loans and Advances - at Amortised Cost	123,157,186,898	126,451,374,379	111,187,855,278	111,322,699,134
Debt and Other Instruments - at Amortised Cost	43,519,891,277	41,720,090,632	30,080,088,461	30,317,126,927
Total Financial Assets	172,174,634,690	173,669,021,526	148,309,412,531	148,681,294,853
Financial Liabilities				
Due to Banks	2,863,376,414	2,863,376,414	521,836,342	521,836,342
Due to Depositors - at Amortised Cost	141,079,707,186	144,280,740,609	122,544,024,040	119,704,850,684
Due to Debt Security Holders - at Amortised Cost	11,535,791,151	11,648,115,649	11,944,842,751	11,944,842,751
Debentures Issued	872,839,452	930,506,924	-	-
Other Liabilities	935,469,542	1,248,164,909	863,074,300	863,074,300
Total Financial Liabilities	157,287,183,745	160,970,904,505	135,873,777,433	133,034,604,077

37 RISK MANAGEMENT

37.1 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 & 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.

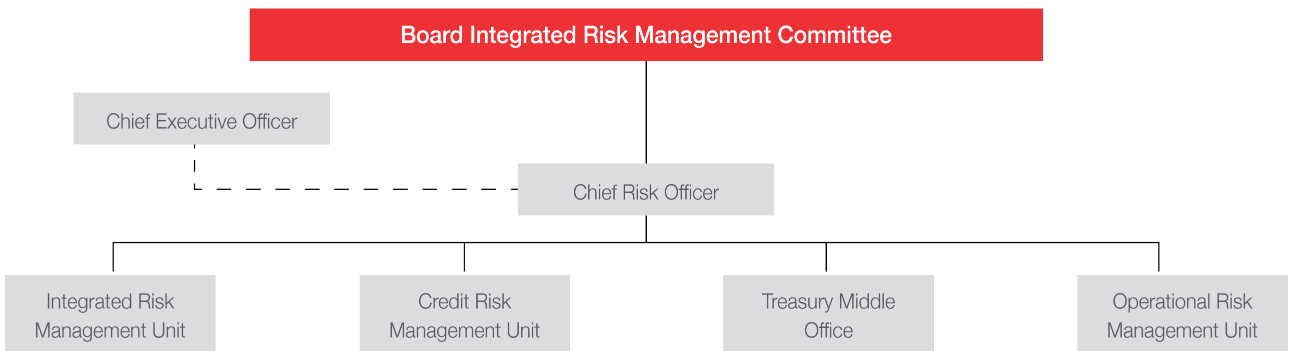
Board Integrated Risk Management Committee
The Board Integrated Risk Management Committee mainly looks into the overall risk management aspects of the Bank. The Committee adopts risk strategies, frameworks, and policies and is also responsible for implementation of these strategies and plans. The Committee 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 & 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.

Board Recoveries Committee
The Board Recoveries Committee is formed to inculcate top to bottom approach in minimising Non-Performing Advances (NPAs) and maximising the profitability of the Bank since recoveries indicate a paramount important for the overall performance of the bank. The Committee was formed for the purpose of ensuring sound recovery function & minimising potential non-performing advances to achieve sustainable growth and stability over the period of time. The main duties of the committee include establish appropriate recovery strategies for NPAs and delinquent credit of the Bank, review performances against recovery targets that are agreed with respective Area Mangers and department/product heads of the Bank and take necessary actions to upgrade the recovery process of the Bank.

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.

Responding to COVID-19 risks

At times, changes in the Bank's external and internal operating environments may have an impact on the nature of one or more of our material risk types. COVID-19 pandemic is a classic example, which rapidly introduced an array of new and elevated risks to the safety of our people, the resilience of the Bank's operations, the strength of our statement of financial position and the financial security of our customers and the community. A number of actions were taken to address these risks, such as:

- Healthy and safely measures to support and protect our staff, customers and community.
- Relief measures to support our customers.
- Infrastructure changes to ensure stability of key services such as launching of mobile ATM and banking facilities.
- Continued enhancement of the Bank's cyber defences.
- Increased oversight of critical suppliers.
- Increased forward looking loan loss provisions.
- Ongoing monitoring of the Bank's lending portfolios.

The Board of Directors and the Management continue to actively monitor the situation and adapt the Bank's response as required.

37.2 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. Counterparty 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 revisions. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the credit 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.

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 Units 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 the Board Credit Committee.

Gold Put Option

The Bank has entered into a Gold Put Option with a reputed International Bank on 12th November 2020, with the view of hedging the drop of market value of gold articles held by the bank as a collateral against Pawning and Gold Loans as a tool of mitigating the Credit Risk. The details of the option is as follows;

Trade Date	: 12th November 2020
Strike Date	: 12th February 2021
Number of Ounces	: 2,000 Troy Ounces
Bullion Strike Price	: USD 1,520 per Ounce

As the Gold price was higher than the strike price of USD 1,520 on expiry date, the put option was "out of the money" (no intrinsic value).

37.2.1 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.

37.2.2 Impairment Assessment

For accounting purposes, the Bank uses an Expected Credit Loss (ECL) model for the recognition of impairment losses on financial assets. The Bank performs an assessment at the end of each reporting date, of whether the financial instruments' 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 instruments.

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 37.2.2.1).
- An explanation of the Bank's Probability of Default estimating process (Note 37.2.2.2).
- How the Bank defines, calculates and monitors the Probability of Default, Exposure at Default and Loss Given Default (Notes 37.2.2.2, 37.2.2.3 and 37.2.2.4 respectively).
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 37.2.2.5).
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note: 37.2.2.6).
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note: 2.9.6.2).

37.2.2.1 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 reclassified 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 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 2.9.10.

37.2.2.2 Probability of Default (PD)

The Bank estimates the Probability of Defaults (PDs) based on the basis of historical information. The Bank's PDs are calculated on the basis of on 'Days Past Due' (DPD) using 'Risk Migration Matrix Method'.

Details of the Bank's PDs are given below;

As at 31st December 2020	Stage 1 %	Stage 2 %	Stage 3 %
Loans and Advances			
Term Loans	0.32 - 21.36	11.13 - 85.68	100.00
Overdrafts	3.00 - 7.79	8.80 - 14.86	100.00
Trade Finance	0.70 - 3.66	7.33 - 14.03	100.00
Lease Rentals Receivable	2.47 - 3.05	3.62 - 8.98	100.00
Others	0.15 - 30.27	0.23 - 41.01	100.00
Other Financial Assets			
Government of Sri Lanka Securities	10.00	-	-
Other Financial Assets	0.0001 - 10.00	-	-

As at 31st December 2019	Stage 1 %	Stage 2 %	Stage 3 %
Loans and Advances			
Term Loans	0.33 - 15.25	9.68 - 66.88	100.00
Overdrafts	3.12 - 7.03	8.98 - 15.72	100.00
Trade Finance	0.88 - 2.76	9.29 - 17.78	100.00
Lease Rentals Receivable	2.37 - 2.89	3.40 - 8.73	100.00
Others	0.10 - 26.25	0.39 - 30.23	100.00
Other Financial Assets			
Government of Sri Lanka Securities	4.00	-	-
Other Financial Assets	0.0001 - 6.00	-	-

PDs are then adjusted for SLFRS 9 ECL calculations to incorporate forward looking information and SLFRS 9 Stage Classification of the exposures. This is repeated for each economic scenario as appropriate.

37.2.2.3 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 2.9.6.4.

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 reporting 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 EAD 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.

37.2.2.4 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. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held.

LGD for debt securities issued by the Government of Sri Lanka in local currency is considered as 0%, LGD for foreign currency denominated securities issued by the Government Sri Lanka Development Bonds and Sri Lanka Sovereign Bonds is considered as 20% and for all other instruments LGD is considered as 45% in accordance with the guidelines issued by the Central Bank of Sri Lanka.

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.

37.2.2.5 Significant Increase in Credit Risk (SICR)

The Bank continuously monitors all financial 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 below 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 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 flows problems.
- A significant increase in financial gearing.
- 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/major projects of the customer.
- Downgrade of Bank's internal risk rating during past 12 months.
- 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 37.2.2.6), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

For facilities subject to the COVID-19 repayment deferral arrangements, an assessment of SICR has been determined based on various measures of the customer's current financial position and earnings capacity from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Customers in higher risk categories, and those who have requested a deferral extension are classified as having a SICR.

The Bank staged individual credit exposures in accordance with the results of the assessment performed using the above criteria. Further the Bank identified all credit exposures of the borrowers in the Tourism and Leisure industry who were enjoying debt moratorium as at 31st December 2020, as exposures with industry elevated credit risk due to the impact of COVID-19 pandemic and Easter day attacks. As such the Bank downgraded Tourism and Leisure sector credit exposures between Stages in a way their elevated risk levels are reflected.

37.2.2.6 Grouping Financial Assets Measured on a Collective Basis

As explained in Note 2.9.6.1, the Bank calculates ECL's either on a collective or an 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 macroeconomic factors within its assessments. These factors include GDP growth rate, unemployment rate, 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 homogeneous portfolios, based on the internal and external characteristics of the loans and advances, as described below;

- Product Type.
- Business Segment Type.
- Industry Type.
- Collateral Type.
- Exposure Value.

37.2.3 Analysis of ECL Model under Multiple Economic Scenarios

Probability Weightings

Probability weighting of each scenario is determined by the management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weighting in the current period is the continuing impact of COVID 19.

In addition to the base case economic forecast which reflects the negative consequences of COVID-19, greater weighting has been applied to the downside scenario given the Bank's assessment of downside risks.

The table below indicates the weightings applied by the bank.

	2020	2019
Base Case	25%	30%
Upside	25%	30%
Downside	50%	40%

Sensitivity Analysis

The following table outlines the impact of multiple economic scenarios on the allowance for impairment of Financial Assets;

As at 31st December 2020	Loans & Advances Rs.
Scenario A - Actual	
Base case - 25%, Upside - 25%, Downside - 50%	4,619,635,308
Scenario B	
Base case - 20%, Upside - 20%, Downside - 60%	4,660,924,376
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	41,289,068
Scenario A - Actual	
Base case - 25%, Upside - 25%, Downside - 50%	4,619,635,308
Scenario C	
Base case - 30%, Upside - 30%, Downside - 40%	4,576,965,655
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(42,669,653)

As at 31st December 2019	Loans & Advances Rs.
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	3,492,311,339
Scenario B	
Base case - 25%, Upside - 25%, Downside - 50%	3,505,977,193
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	13,665,854
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	3,492,311,339
Scenario C	
Base case - 40%, Upside - 40%, Downside - 20%	3,462,786,738
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(29,524,601)

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.

37.2.4 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.

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37.2.5 Maximum Exposure to Credit Risk

As at 31st December 2020	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Financial Assets		
Cash and Cash Equivalents	2,914,162,517	2,914,162,517
Balances with Central Bank of Sri Lanka	2,583,393,998	2,583,393,998
Derivative Financial Instruments	93,012,698	93,012,698
Loans and Advances - at Amortised Cost (Note 18)	130,751,777,695	12,337,558,225
Debt and Other Instruments - at Amortised Cost (Note 19)	43,888,570,397	42,358,128,979
Financial Assets - at Fair Value through Other Comprehensive Income	6,157,847	6,157,847
	180,237,075,152	60,292,414,264
Other Credit Exposures		
Documentary Credit (Note 41)	1,793,098,757	1,726,570,839
Guarantees (Note 41)	3,879,977,314	3,500,720,995
Undrawn Credit Commitments* (Note 41)	14,979,200,357	14,979,200,357
	20,652,276,428	20,206,492,191
	200,889,351,580	80,498,906,455

As at 31st December 2019	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Financial Assets		
Cash and Cash Equivalents	1,708,269,215	1,708,269,215
Balances with Central Bank of Sri Lanka	5,333,199,577	5,333,199,577
Derivative Financial Instruments	443,298	443,298
Loans and Advances -at Amortised Cost (Note 18)	117,503,175,729	16,808,275,163
Debt and Other Instruments - at Amortised Cost (Note 19)	30,206,445,904	30,142,888,439
Financial Assets- at Fair Value through Other Comprehensive Income	6,157,847	6,157,847
	154,757,691,570	53,999,233,539
Other Credit Exposures		
Documentary Credit (Note 41)	2,768,702,557	2,711,077,680
Guarantees (Note 41)	3,069,132,632	2,704,949,589
Undrawn Credit Commitments* (Note 41)	14,953,647,649	14,953,647,649
	20,791,482,838	20,369,674,918
	175,549,174,408	74,368,908,457

*Credit Risk mitigants relating to undrawn credit commitments are netted off against utilised portion of respective credit facilities.

37.2.6 Modified Financial Assets and Forborne Loans

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial.

This assessment considers both changes to cash flows arising from the modified terms and the changes in risk profile of the overall instrument. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine Significant Increase in Credit Risk. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine Significant Increase in Credit Risk for the new asset.

37.2.6.1 Modifications relating to COVID-19

Since March 2020, the Bank offered various forms of assistance to customers to counter the impact of COVID 19 on their ability to meet their loan obligations. The assistance provided included arrangements such as temporary deferral of capital and/or interest repayments and maturity dates with or without concession on interest charged.

The repayment deferral arrangements were considered to be continuations of the existing loans and were therefore, accounted for as non-substantial loan modifications. A total modification loss of Rs.192,394,045/- was recognised in relation to payment deferrals on credit facilities with Equated Monthly Installments (EMI) in Net interest income. No other modification gains or losses were recognised as a result of the payment deferral arrangements.

Loans with a gross carrying value of Rs.760,370,422/- were subject to COVID-19 related repayment deferral arrangements when they were in either Stage 2 or Stage 3, that is when they were subject to lifetime expected losses. Out of these exposures, loans with a gross carrying value of approximately Rs.611,915,706/- remained in either Stage 2 or Stage 3 as at 31st December 2020.

37.2.6.2 Forborne Loans

From a risk management point of view, once a loan is rescheduled the Bank's Recoveries Department continues to monitor the 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.

	2020 Rs.	2019 Rs.
Amortised Cost of Forborne Loans and Advances (Modified during the Year)	268,803,731	2,367,040,354
Net Modification Loss	342,590	3,032,002

37.2.7 Model Adjustments

The COVID-19 pandemic is leasing to material structural shifts in the behaviour of the economy customers, and extraordinary measures by banks, the government and the industry prudential regulatory i.e. CBSL in response. ECL models are expected to be subject to a higher than usual level of uncertainty during this period.

In this environment there is a heightened need for the application of judgement in order to reflect these evolving relationships and risks. Given the extent of uncertainty surrounding the economic impact of COVID-19 and the lack of reliable data to model the impact on the banking book, as well as operational and timing challenges in incorporating the latest available macroeconomic inputs into the ECL models, the Bank included overlays and post-model adjustments in their ECL provision.

37.2.7.1 Assessment and calculation of ECL

The calculation of ECL involves significant accounting judgements, estimates and assumptions. These are set out in Note 2.9.6.1 Impairment of Financial Assets and 2.7.4 Significant Accounting Judgements, Estimates and Assumptions.

The level of estimation uncertainty has increased since 31 December 2019 as a result of the economic disruption and consequential impact of the COVID-19 pandemic. This includes significant judgements relating to:

- The selection and weighting of macro-economic scenarios;
- The effect of government and other support measures put in place to mitigate the negative economic impact;
- The uncertainty over the duration and severity of the effect of the pandemic as well as the timing and duration of the recovery;
- Determination of the impact of the macro-economic scenarios on ECL and whether the required parameters can be modelled given the unavailability of historical information for a similar event;
- Identification and assessment of significant increases in credit risk and impairment especially for customers who have received support under the government and Bank support schemes and the inherent limitations in data availability to facilitate a reliable segmentation.

37.2.7.2 Impact on Modelled ECL allowance

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio or segment. As a result, post-model adjustments are needed.

Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Bank expects that post model adjustments will be applied for the foreseeable future. Post-model adjustments represent adjustments in relation to data and model limitations as a result of the COVID-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. They include the effect of government and other support programmes.

37.2.7.3 Management overlays

Management overlays reflect the significant uncertainty as a consequence of the COVID-19 pandemic. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors such as Hotel and Tourism sector and loan classes such as unsecured consumer loans.

The modeled ECLs, COVID-19 overlay and post model adjustments is approximately 7 % of the total ECL provision as at 31st December 2020.

Additional information and sensitivity analysis in respect of the inputs to the ECL model under Probability Weightings and Multiple Economic Scenarios is provided in Note 37.2.3.

37.2.8 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.

As at 31st December 2020	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	2,917,287,196	-	-	-	-	-	-	-	-	2,917,287,196
Balances with Central Bank of Sri Lanka	2,583,393,998	-	-	-	-	-	-	-	-	2,583,393,998
Derivative Financial Instruments	93,012,698	-	-	-	-	-	-	-	-	93,012,698
Loans and Advances -at Amortised Cost	97,408,665,503	12,142,381,460	6,518,537,396	2,420,588,831	3,032,499,793	1,041,104,970	860,173,264	3,276,608,336	4,051,218,142	130,751,777,695
Debt and Other Instruments - at Amortised Cost	43,888,570,397	-	-	-	-	-	-	-	-	43,888,570,397
Financial Assets at FVOCI	6,157,847	-	-	-	-	-	-	-	-	6,157,847
Total	146,897,087,639	12,142,381,460	6,518,537,396	2,420,588,831	3,032,499,793	1,041,104,970	860,173,264	3,276,608,336	4,051,218,142	180,240,199,831

As at 31st December 2019	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	1,709,649,763	-	-	-	-	-	-	-	-	1,709,649,763
Balances with Central Bank of Sri Lanka	5,333,199,577	-	-	-	-	-	-	-	-	5,333,199,577
Derivative Financial Instruments	443,298	-	-	-	-	-	-	-	-	443,298
Financial Assets at Fair Value through Profit or Loss	168,176,768	-	-	-	-	-	-	-	-	168,176,768
Loans and Advances -at Amortised Cost	79,373,466,912	15,620,719,468	10,110,982,382	3,302,356,488	748,147,510	1,738,663,995	710,302,612	2,083,925,954	3,814,610,408	117,503,175,729
Debt and Other Instruments - at Amortised Cost	30,206,445,904	-	-	-	-	-	-	-	-	30,206,445,904
Financial Assets at FVOCI	6,157,847	-	-	-	-	-	-	-	-	6,157,847
Total	116,797,540,069	15,620,719,468	10,110,982,382	3,302,356,488	748,147,510	1,738,663,995	710,302,612	2,083,925,954	3,814,610,408	154,927,248,886

SLFRS 7 : Financial Instruments : Disclosures specifically require the disclosure of quality of loans and advances 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 considers any amounts uncollected for one day or more beyond their contractual due date as 'Past Due'.

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 'Individually 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.

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37.2.9 Analysis of Risk Concentration

37.2.9.1 Concentration by Client/Counterparty

The Bank's concentrations of risk are managed by client/counterparty, by industry sector and geographical region. The maximum credit exposure to any customer or a group counterparty as of 31st December 2020 was Rs.2,301,200,000/- (2019 : Rs.2,200,000,000/-), before taking account of collateral.

37.2.9.2 Concentration by Industry Sector

As at 31st December 2020	Government	Agriculture, Forestry and Fishing	Manufacturing	Tourism	Transportation and Storage	Construction & Housing	Wholesale and Retail Sale
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	2,663,079,580	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	2,583,393,998	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Loans and Advances -at Amortised Cost	-	18,498,849,489	11,181,761,804	3,008,273,031	800,165,332	39,051,065,361	14,252,582,263
Debt and Other Instruments - at Amortised Cost	42,358,128,978	-	-	-	-	-	-
Financial Assets at FVOCI	-	-	-	-	-	-	-
	47,604,602,556	18,498,849,489	11,181,761,804	3,008,273,031	800,165,332	39,051,065,361	14,252,582,263

As at 31st December 2019	Government	Agriculture, Forestry and Fishing	Manufacturing	Tourism	Transportation and Storage	Construction & Housing	Wholesale and Retail Sale
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,475,276,403	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	5,333,199,577	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Financial Assets at FVPL	168,176,768	-	-	-	-	-	-
Loans and Advances -at Amortised Cost	-	15,206,944,296	11,389,229,391	3,182,022,703	687,131,895	31,749,229,002	18,645,860,270
Debt and Other Instruments - at Amortised Cost	28,523,451,683	-	-	-	-	506,020,773	-
Financial Assets at FVOCI	-	-	-	-	-	-	-
	35,500,104,431	15,206,944,296	11,389,229,391	3,182,022,703	687,131,895	32,255,249,775	18,645,860,270

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 Service	Consumption	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	254,207,616	-	-	-	-	-	-	2,917,287,196
-	-	-	-	-	-	-	-	2,583,393,998
-	93,012,698	-	-	-	-	-	-	93,012,698
413,639,489	4,585,635,386	338,844,850	4,524,302,398	913,457,026	633,832,325	274,973,652	32,274,395,289	130,751,777,695
-	1,530,441,419	-	-	-	-	-	-	43,888,570,397
-	6,157,847	-	-	-	-	-	-	6,157,847
413,639,489	6,469,454,966	338,844,850	4,524,302,398	913,457,026	633,832,325	274,973,652	32,274,395,289	180,240,199,831

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 Service	Consumption	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	234,373,360	-	-	-	-	-	-	1,709,649,763
-	-	-	-	-	-	-	-	5,333,199,577
-	443,298	-	-	-	-	-	-	443,298
-	-	-	-	-	-	-	-	168,176,768
390,483,063	6,413,058,748	187,708,139	1,226,686,609	298,821,866	678,092,841	291,254,902	27,156,652,004	117,503,175,729
-	1,176,973,448	-	-	-	-	-	-	30,206,445,904
-	6,157,847	-	-	-	-	-	-	6,157,847
390,483,063	7,831,006,701	187,708,139	1,226,686,609	298,821,866	678,092,841	291,254,902	27,156,652,004	154,927,248,886

NOTES TO THE FINANCIAL STATEMENTS

37.2.9.3 Concentration by Geography

Geographical Concentration for Loans and Advances within Sri Lanka is given below.

Province	2020	2019
Central	14,929,632,829	11,327,306,140
Eastern	3,092,708,898	2,432,315,738
North Central	4,640,972,222	3,372,341,143
North Western	7,620,641,056	5,781,156,246
Northern	2,838,089,471	2,291,311,927
Sabaragamuwa	5,577,651,149	4,171,362,738
Southern	8,949,433,429	6,909,186,733
Uva	2,981,325,735	2,009,304,305
Western	80,121,322,906	79,208,890,759
Total	130,751,777,695	117,503,175,729

37.3 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, the 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 monitoring of future cash flows and liquidity on a daily basis.

37.3.1 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. 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 remaining contractual maturities of assets and liabilities of the Bank as at the reporting date are detailed in Note 40.

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 Central Bank of Sri Lanka equal to 2% (2019 - 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 Statutory Liquid Assets Ratio to customer liabilities, to reflect market conditions. The significant liquidity ratios during the year are as follows;

Advances to Deposits Ratio (ADR)

	2020	2019
Average	97.09%	97.89%
Year end	94.73%	99.19%

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 Deposits 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 Assets Ratio (SLAR)

	2020	2019
Average		
Domestic Banking Unit (DBU)	27.25%	31.48%
Foreign Currency Banking Unit (FCBU)	34.35%	21.45%
Year end		
Domestic Banking Unit (Minimum Requirement - 20%)	27.83%	24.93%
Foreign Currency Banking Unit (Minimum Requirement - 20%)	42.36%	23.61%

The Bank maintains a healthy SLAR separately at DBU and FCBU levels. The Bank considers Cash balances, Balances with Licensed Commercial Banks, Money at Call in Sri Lanka, Balances with Banks Abroad, Sovereign Bonds, Treasury Bills/Bonds and Securities issued or guaranteed by the Government of Sri Lanka, Sri Lanka Development Bonds, Sovereign 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 SLAR Calculation.

In addition to above, the Bank considered interest subsidy receivable on Senior Citizens Special Deposit Scheme and twenty percent of loans secured by deposits under lien as ‘Liquid Assets’ for the computation of SLAR as allowed by extraordinary relief measures of Central Bank of Sri Lanka to strengthen the liquidity positions of licensed commercial banks, in view of the potential adverse impact on the liquidity due to COVID-19 pandemic.

37.3.2 Liquidity Coverage Ratio (LCR)

In addition to Statutory Liquid Assets Ratio requirement, the Bank ensures compliance with LCR requirement in accordance with Banking Act Direction No.01 of 2015 on ‘Liquidity Coverage Ratio 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 of 90% (2019 - 100%) for both Sri Lankan Rupee as well as all currencies throughout the year.

High Quality Liquidity Assets are categorised into two categories.

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.

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 units 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.

	2020	2019
Average		
Rupee LCR	144.32%	170.00%
All Currency LCR	183.24%	176.22%
Year end (Minimum Requirement - 90%, 2019 - 100%)		
Rupee LCR	177.36%	128.84%
All Currency LCR	211.57%	165.02%

NOTES TO THE FINANCIAL STATEMENTS

37.3.3 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 year. 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 deposits retention history.

As at 31st December 2020	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	2,914,162,517	-	-	-	2,914,162,517
Balances with Central Bank of Sri Lanka	2,583,393,998	-	-	-	2,583,393,998
Derivative Financial Instruments	93,012,698	-	-	-	93,012,698
Loans and Advances - at Amortised Cost	41,947,146,422	21,205,788,769	69,886,276,149	41,663,269,912	174,702,481,252
Debt and Other Instruments - at Amortised Cost	19,103,591,792	4,240,165,000	16,314,784,915	6,905,132,625	46,563,674,332
Financial Assets at FVOCI	-	-	-	6,157,847	6,157,847
Total Undiscounted Financial Assets	66,641,307,427	25,445,953,769	86,201,061,064	48,574,560,384	226,862,882,644
Financial Liabilities					
Due to Banks	604,344,493	525,939,935	266,304,734	1,475,377,446	2,871,966,608
Derivative Financial Instruments	79,005,240	-	-	-	79,005,240
Due to Depositors - at Amortised Cost	72,139,746,913	53,733,281,194	18,666,186,481	3,509,418,917	148,048,633,505
Due to Debt Securities Holders - at Amortised Cost	1,472,167,743	4,891,812,956	6,474,178,112	-	12,838,158,811
Debentures Issued	52,839,452	-	820,000,000	-	872,839,452
Other Liabilities	71,126,319	179,665,740	459,571,519	225,105,964	935,469,542
Total Undiscounted Financial Liabilities	74,419,230,160	59,330,699,825	26,686,240,846	5,209,902,327	165,646,073,158
Net Undiscounted Financial Assets/(Liabilities)	(7,777,922,733)	(33,884,746,056)	59,514,820,218	43,364,658,057	61,216,809,486

As at 31st December 2019	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	1,708,269,215	-	-	-	1,708,269,215
Balances with Central Bank of Sri Lanka	5,333,199,577	-	-	-	5,333,199,577
Derivative Financial Instruments	443,298	-	-	-	443,298
Financial Assets at FVPL	168,176,768	-	-	-	168,176,768
Loans and Advances - at Amortised Cost	48,505,057,359	21,011,936,286	54,430,434,792	23,830,356,384	147,777,784,821
Debt and Other Instruments - at Amortised Cost	729,260,700	11,978,087,824	17,485,518,704	7,433,542,683	37,626,409,911
Financial Assets at FVOCI	-	-	-	6,157,847	6,157,847
Total Undiscounted Financial Assets	56,444,406,917	32,990,024,110	71,915,953,496	31,270,056,914	192,620,441,437
Financial Liabilities					
Due to Banks	304,987,039	67,156,829	168,938,324	-	541,082,192
Derivative Financial Instruments	107,293	-	-	-	107,293
Due to Depositors - at Amortised Cost	59,881,822,157	53,824,959,310	13,469,362,096	3,429,314,180	130,605,457,743
Due to Debt Securities Holders - at Amortised Cost	2,441,745,848	3,277,005,004	7,566,238,052	-	13,284,988,904
Other Liabilities	68,203,657	162,726,621	510,148,553	121,995,469	863,074,300
Total Undiscounted Financial Liabilities	62,696,865,994	57,331,847,764	21,714,687,025	3,551,309,649	145,294,710,432
Net Undiscounted Financial Assets/(Liabilities)	(6,252,459,077)	(24,341,823,654)	50,201,266,471	27,718,747,265	47,325,731,005

NOTES TO THE FINANCIAL STATEMENTS

37.3.4 Remaining Contractual Maturities of Commitments and Contingencies

The table below shows the remaining contractual 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.

As at 31st December 2020	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Commitments and Contingencies					
Guarantees	1,605,368,349	1,773,112,810	501,295,962	200,193	3,879,977,314
Documentary Credit	1,749,762,520	43,336,237	-	-	1,793,098,757
Forward Foreign Exchange Contracts	2,865,249,812	8,085,515,885	-	-	10,950,765,697
Currency Swaps	30,538,546,765	5,586,895,000	-	-	36,125,441,765
Undrawn Credit Commitments	14,979,200,357	-	-	-	14,979,200,357
Total (Note 41)	51,738,127,803	15,488,859,932	501,295,962	200,193	67,728,483,890

As at 31st December 2019	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Commitments and Contingencies					
Guarantees	974,640,992	1,845,824,060	248,667,580	-	3,069,132,632
Documentary Credit	2,204,490,850	564,211,707	-	-	2,768,702,557
Forward Foreign Exchange Contracts	334,452,350	-	-	-	334,452,350
Currency Swaps	25,873,094,038	-	-	-	25,873,094,038
Undrawn Credit Commitments	14,953,647,649	-	-	-	14,953,647,649
Total (Note 41)	44,340,325,879	2,410,035,767	248,667,580	-	46,999,029,226

37.4 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 foreign currency positions.

Management of Market Risk

The primary objective of market risk management is to ensure that the Bank optimises 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, the Bank's 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 the Bank level to mitigate the market risks. In addition, a policy document defining the responsibilities of each Treasury Unit 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, counterparty 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 the Board Integrated Risk Management Committee reviews these risk goals and provides valuable input and direction.

37.4.1 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 the Banks portfolios 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 repricing characteristics of that financial instrument.

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 the 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.

	2020	2019
Increase in interest rates (Basis Points)	200 bps	200 bps
Effect on Profit or Loss and Equity (Rs.)	(492,991,899)	(166,897,376)
Decrease in interest rates (Basis Points)	(200 bps)	(200 bps)
Effect on Profit or Loss and Equity (Rs.)	614,537,352	228,447,556

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 amounts and categorised by earlier of contractual repricing or maturity dates.

As at 31st December 2020	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	-	-	-	-	2,914,162,517	2,914,162,517
Balances with Central Bank of Sri Lanka	-	-	-	-	2,583,393,998	2,583,393,998
Derivative Financial Instruments	-	-	-	-	93,012,698	93,012,698
Loans and Advances -at Amortised Cost	82,727,260,345	22,013,195,824	15,024,922,239	3,391,808,490	-	123,157,186,898
Debt and Other Instruments - at Amortised Cost	22,877,696,678	4,585,430,463	10,027,863,161	6,028,900,975	-	43,519,891,277
Financial Assets at FVOCI	-	-	-	-	6,157,847	6,157,847
Total Financial Assets	105,604,957,023	26,598,626,287	25,052,785,400	9,420,709,465	5,596,727,060	172,273,805,235
Financial Liabilities						
Due to Banks	567,645,574	521,292,972	263,683,039	1,475,377,446	35,377,383	2,863,376,414
Derivative Financial Instruments	-	-	-	-	79,005,240	79,005,240
Due to Depositors - at Amortised Cost	67,363,669,461	55,201,586,825	9,423,273,805	2,943,053,790	6,148,123,305	141,079,707,186
Due to Debt Securities Holders - at Amortised Cost	4,156,285,524	5,289,155,627	2,090,350,000	-	-	11,535,791,151
Debentures Issued	52,839,452	-	820,000,000	-	-	872,839,452
Other Liabilities	71,126,318	179,665,740	459,571,519	225,105,965	-	935,469,542
Total Financial Liabilities	72,211,566,329	61,191,701,164	13,056,878,363	4,643,537,201	6,262,505,928	157,366,188,985
Total Interest Rate Sensitivity Gap	33,393,390,694	(34,593,074,877)	11,995,907,037	4,777,172,264	(665,778,868)	14,907,616,250

As at 31st December 2019	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	-	-	-	-	1,708,269,215	1,708,269,215
Balances with Central Bank of Sri Lanka	-	-	-	-	5,333,199,577	5,333,199,577
Derivative Financial Instruments	-	-	-	-	443,298	443,298
Financial Assets at FVPL	168,176,768	-	-	-	-	168,176,768
Loans and Advances -at Amortised Cost	83,689,820,881	18,100,048,867	8,755,951,819	642,033,711	-	111,187,855,278
Debt and Other Instruments - at Amortised Cost	4,709,939,048	11,377,938,026	8,239,415,248	5,752,796,139	-	30,080,088,461
Financial Assets at FVOCI	-	-	-	-	6,157,847	6,157,847
Total Financial Assets	88,567,936,697	29,477,986,893	16,995,367,067	6,394,829,850	7,048,069,937	148,484,190,444
Financial Liabilities						
Due to Banks	136,045,959	55,438,133	161,422,129	-	168,930,121	521,836,342
Derivative Financial Instruments	-	-	-	-	107,293	107,293
Due to Depositors - at Amortised Cost	55,569,224,282	50,884,564,270	8,787,188,941	2,719,955,397	4,583,091,150	122,544,024,040
Due to Debt Securities Holders - at Amortised Cost	4,588,258,196	5,295,490,330	2,061,094,225	-	-	11,944,842,751
Other Liabilities	68,203,657	162,726,621	510,148,553	121,995,469	-	863,074,300
Total Financial Liabilities	60,361,732,094	56,398,219,354	11,519,853,848	2,841,950,866	4,752,128,564	135,873,884,726
Total Interest Rate Sensitivity Gap	28,206,204,603	(26,920,232,461)	5,475,513,219	3,552,878,986	2,295,941,373	12,610,305,718

37.4.2 Equity Price Risk

Equity price risk arises from the possibility that equity prices will fluctuate affecting the value of quoted equities.

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 changes 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 the Bank's policy. However, the Bank does not hold a significant investment in quoted or unquoted shares as at the reporting date.

All investments held for trading are valued at market prices as at the reporting date and resulting gains and losses are taken into books as unrealised gains or losses. Unquoted investments classified as 'Equities at FVOCI' are carried at the cost in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS

37.4.3 Foreign Currency Risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or equity. The Bank is exposed to foreign exchange rate risk that the value of a financial instrument or the investment in its foreign assets, may fluctuate due to changes in foreign exchange rates.

Given below are the foreign currency exposures and their rupee equivalents in the major currencies, in which the Bank trades in;

As at 31st December	In Original Foreign Currency		Functional Currency of the Bank	
	2020	2019	2020	2019
			Rs.	Rs.
Net Foreign Currency Exposure				
Great Britain Pound	(3,507)	(19,991)	(899,071)	(4,773,048)
United States Dollar	863,362	(21,962)	161,966,672	(3,983,482)
Euro	16,519	2,525	3,810,951	513,467
Japanese Yen	(773,034)	(1,098,938)	(1,406,303)	(1,836,106)

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%,10% and 15%, for depreciation on the current exchange rate and the impact on the overall foreign currency NOP (in USD) and the impact on Profit or Loss is shown in the table below:

NOP as at 31.12.2020			NOP as at 31.12.2019		
	USD	Rs.		USD	Rs.
NOP	898,591	168,575,695	NOP	91,013	16,507,991
At shock levels of %	Revised Rupee Position	Effect on Profit or Loss	At shock levels of %	Revised Rupee Position	Effect on Profit or Loss
	Rs.	Rs.		Rs.	Rs.
5	160,146,910	8,428,785	5	15,682,591	825,400
10	151,718,125	16,857,570	10	14,857,192	1,650,799
15	143,289,341	25,286,354	15	14,031,792	2,476,199

37.5 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 the 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.

37.6 Country Risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank, directly by impairing the value of the Bank or indirectly through an obligor's ability to meet its obligations to the Bank. Generally, these occurrences relate, but are not limited, to: sovereign events such as defaults or restructuring, political events such as contested elections, restrictions on currency movements, regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil, currency crisis and natural disasters.

In reality, the country risk is used to denote risks that are associated with investing in a foreign country instead of investing in the domestic market. As such the Bank's risk management framework incorporates a number of measures and tools to monitor this risk on exposures held outside Sri Lanka although such balances are insignificant.

The following table provides a summary of exposures by country of risk:

As at 31st December 2020	Sri Lanka Rs.	Asia Rs.	America Rs.	Europe Rs.	Oceania Rs.
Balances with Banks	28,681,581	135,771,884	-	81,869,303	7,884,848
Loans and Advances	125,039,281,162	5,464,734,596	247,761,937	-	-

As at 31st December 2019	Sri Lanka Rs.	Asia Rs.	America Rs.	Europe Rs.	Oceania Rs.
Balances with Banks	62,856,535	136,589,148	-	20,560,977	14,366,700
Loans and Advances	112,249,304,681	5,035,350,277	218,520,771	-	-

Rest of the financial asset categories does not include exposures outside the territorial boundaries of Sri Lanka, as such are not presented separately.

38 NET ASSET VALUE PER ORDINARY SHARE

	2020	2019
Total Equity Holders Funds (Rs.)	15,397,168,746	13,328,788,206
Number of Ordinary Shares in Issue (Note 32)	442,561,629	442,561,629
Net Assets Value Per Share (Rs.)	34.79	30.12

39 ADDITIONAL CASH FLOW INFORMATION

39.1 Cash and Cash Equivalents for Cash Flow Purpose

	2020 Rs.	2019 Rs.
Cash in Hand (Note 14)	2,663,079,580	1,475,276,403
Balances with Foreign Banks (Note 14)	254,207,616	234,373,360
	2,917,287,196	1,709,649,763

The statutory deposit with 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.

39.2 Change in Operating Assets

	2020 Rs.	2019 Rs.
Statutory Deposit with Central Bank of Sri Lanka	2,749,805,579	1,148,794,185
Derivative Financial Instruments	(92,569,401)	(233,597)
Financial Assets at Fair Value through Profit or Loss	168,176,768	(156,548,173)
Loans and Advances - at Amortised Cost	(13,315,031,701)	(4,107,664,779)
Debt and Other Instruments - at Amortised Cost	(13,682,124,493)	3,951,943,308
Other Assets	(349,993,897)	(228,127,409)
	(24,521,737,146)	608,163,535

NOTES TO THE FINANCIAL STATEMENTS

39.3 Change in Operating Liabilities

	2020 Rs.	2019 Rs.
Due to Banks	2,341,540,073	(1,222,370,503)
Due to Debt Securities Holds - at Amortised Cost	(1,372,387,716)	(698,781,879)
Derivative Financial Instruments	78,897,947	(6,942)
Due to Depositors - at Amortised Cost	18,535,683,146	3,916,675,296
Other Provisions and Accruals	23,261,060	(20,795,413)
Other Liabilities	477,558,278	388,425,783
	20,084,552,788	2,363,146,342

39.4 Other Non-Cash Items Included in Profit Before Tax

	2020 Rs.	2019 Rs.
Depreciation of Property, Plant and Equipment (Note 10)	154,331,015	147,738,549
Amortisation of Right-of-Use assets (Note 10)	218,662,547	202,526,811
Amortisation of Intangible Assets (Note 10)	43,623,519	37,439,104
Loss on Disposal of Property, Plant and Equipment	1,293,414	5,516,911
Impairment Charges (Note 8)	1,596,041,816	1,136,842,858
Defined Benefit Plan Expenses(Note 9)	76,041,971	71,936,571
	2,089,994,282	1,602,000,804

39.5 Operational Cash Flows From Interest and Dividends

	2020 Rs.	2019 Rs.
Interest Paid	11,097,669,475	10,267,868,039
Interest Received	18,573,779,543	19,327,891,116
Dividends Received	960,000	1,148,100

39.6 Changes in Liabilities arising from Financing Activities

	Stated Capital Rs.	Unsecured Term Borrowings Rs.	Debentures Rs.	Lease Liability Rs.	Total Liabilities from Financing Activities Rs.
At 1st January 2020	3,614,253,304	9,512,176,841	-	824,180,213	13,950,610,358
Cash Flows from Financing Activities					
- Receipts	-	4,090,350,000	820,000,000	-	4,910,350,000
- Repayments	-	(3,176,560,000)	-	(193,227,009)	(3,369,787,009)
- Interest Payments	-	(801,836,214)	-	(87,494,513)	(889,330,727)
Effect of Movement in Foreign Exchange Rate	-	163,275,000	-	-	163,275,000
Others *	-	849,734,829	52,839,452	344,566,635	1,247,140,916
At 31st December 2020	3,614,253,304	10,637,140,456	872,839,452	888,025,326	16,012,258,538

	Stated Capital	Unsecured Term Borrowings	Debentures	Lease Liability	Total Liabilities from Financing Activities
	Rs.	Rs.	Rs.	Rs.	Rs.
At 1st January 2019	3,614,253,304	10,203,968,478	5,809,186,154	1,006,839,907	20,634,247,843
Cash Flows from Financing Activities					
- Receipts	-	362,760,000	-	-	362,760,000
- Repayments	-	(1,000,000,000)	(5,690,855,300)	(206,370,814)	(6,897,226,114)
- Interest Payments	-	(861,852,688)	(573,193,734)	(101,630,636)	(1,536,677,058)
Effect of Movement in Foreign Exchange Rate	-	(58,725,000)	-	-	(58,725,000)
Others *	-	866,026,051	454,862,880	125,341,756	1,446,230,687
At 31st December 2019	3,614,253,304	9,512,176,841	-	824,180,213	13,950,610,358

* The 'Others' row includes the effect of accrued but not yet paid interest on Unsecured Term Borrowings, debentures, lease liabilities and change in transaction costs.

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31st December 2020	Within 12 Months	After 12 Months	Total
	Rs.	Rs.	Rs.
Assets			
Cash and Cash Equivalents	2,914,162,517	-	2,914,162,517
Balances with Central Bank of Sri Lanka	2,583,393,998	-	2,583,393,998
Derivative Financial Instruments	93,012,698	-	93,012,698
Loans and Advances -at Amortised Cost	52,236,532,265	70,920,654,633	123,157,186,898
Debt and Other Instrument - at Amortised Cost	22,766,606,261	20,753,285,016	43,519,891,277
Financial Assets at FVOCI	-	6,157,847	6,157,847
Property, Plant and Equipment	-	2,307,881,538	2,307,881,538
Right-of-Use Assets	249,677,493	733,687,797	983,365,290
Intangible Assets	-	346,697,490	346,697,490
Other Assets	594,591,380	434,066,625	1,028,658,005
Total Assets	81,437,976,612	95,502,430,946	176,940,407,558
Liabilities			
Due to Banks	1,124,315,929	1,739,060,485	2,863,376,414
Derivative Financial Instruments	79,005,240	-	79,005,240
Due to Depositors - at Amortised Cost	122,971,922,792	18,107,784,394	141,079,707,186
Due to Debt Securities Holders - at Amortised Cost	5,756,241,151	5,779,550,000	11,535,791,151
Debentures Issued	52,839,452	820,000,000	872,839,452
Current Tax Liabilities	825,101,530	-	825,101,530
Deferred Tax Liabilities	-	159,834,404	159,834,404
Other Provisions and Accruals	210,863,659	-	210,863,659
Other Liabilities	2,871,257,103	1,045,462,673	3,916,719,776
Total Liabilities	133,891,546,856	27,651,691,956	161,543,238,812
Net	(52,453,570,244)	67,850,738,990	15,397,168,746

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2019	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Assets			
Cash and Cash Equivalents	1,708,269,215	-	1,708,269,215
Balances with Central Bank of Sri Lanka	5,333,199,577	-	5,333,199,577
Derivative Financial Instruments	443,298	-	443,298
Financial Assets at FVPL	168,176,768	-	168,176,768
Loans and Advances -at Amortised Cost	59,532,587,766	51,655,267,512	111,187,855,278
Debt and Other Instruments - at Amortised Cost	11,250,994,229	18,829,094,232	30,080,088,461
Financial Assets at FVOCI		6,157,847	6,157,847
Property, Plant and Equipment	-	2,333,961,113	2,333,961,113
Right-of-Use Assets	212,036,174	699,800,626	911,836,800
Intangible Assets	-	280,851,974	280,851,974
Other Assets	522,615,767	446,239,378	968,855,145
Total Assets	78,728,322,794	74,251,372,682	152,979,695,476
Liabilities			
Due to Banks	360,414,214	161,422,128	521,836,342
Derivative Financial Instruments	107,293	-	107,293
Due to Depositors - at Amortised Cost	110,160,213,257	12,383,810,783	122,544,024,040
Due to Debt Securities Holders - at Amortised Cost	5,122,523,526	6,822,319,225	11,944,842,751
Current Tax Liabilities	752,287,378	-	752,287,378
Deferred Tax Liabilities	-	132,780,476	132,780,476
Other Provisions and Accruals	187,602,599	-	187,602,599
Other Liabilities	2,620,161,464	947,264,927	3,567,426,391
Total Liabilities	119,203,309,731	20,447,597,539	139,650,907,270
Net	(40,474,986,937)	53,803,775,143	13,328,788,206

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

41 COMMITMENTS AND CONTINGENCIES

The Bank enters into various irrevocable commitments and contingent liabilities to meet the financial needs of customers, . 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 (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. Financial Guarantees and Documentary Credit carry a similar credit risk to loans and advances. Details of Commitments and Contingencies are given below;

41.1 Commitments and Contingencies

	2020 Rs.	2019 Rs.
Guarantees	3,879,977,314	3,069,132,632
Documentary Credit	1,793,098,757	2,768,702,557
Forward Foreign Exchange Contracts	10,950,765,697	334,452,350
Currency Swaps	36,125,441,765	25,873,094,038
Undrawn Credit Commitments	14,979,200,357	14,953,647,649
Total (Note 37.3.4)	67,728,483,890	46,999,029,226

Impairment allowances on undrawn credit commitments are included under impairment allowances for respective loan products in Note 18.6, whereas impairment allowances on financial guarantees and documentary credit are given under Note 29 - Other Liabilities.

There are no significant capital commitments as at the date of the Statement of Financial Position (2019-Nil).

41.2 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.

42 LEASE ARRANGEMENTS

42.1 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 2020	Total Future Minimum Lease Payments Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payments Rs.
Lease Rentals Receivable			
- Within one year	4,584,780,308	1,093,048,915	3,491,731,393
- After one year but not more than five years	7,285,207,534	1,317,242,275	5,967,965,259
- More than five years	40,068,458	3,180,452	36,888,006
Total (Note 18.1)	11,910,056,300	2,413,471,642	9,496,584,658

31st December 2019	Total Future Minimum Lease Payments Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payments Rs.
Lease Rentals Receivable			
- Within one year	4,694,553,697	1,041,266,734	3,653,286,963
- After one year but not more than five years	6,055,431,469	1,082,125,383	4,973,306,086
- More than five years	715,034	106,554	608,480
Total (Note 18.1)	10,750,700,200	2,123,498,671	8,627,201,529

Accumulated allowance for uncollectible minimum lease payments are disclosed in Note 18.6.

43 RELATED PARTY DISCLOSURE

The Bank has carried out transactions in the ordinary course of business with parties who are defined as "Related Parties" as defined in LKAS 24 - 'Related Party Disclosures'. The terms and conditions of such transactions are disclosed under Note 43.4 and Note 43.5.

43.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

43.2 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.

43.3 Compensation to Key Management Personnel of the Bank

The following represents the compensation paid to Key Management Personnel of the Bank.

	2020 Rs.	2019 Rs.
Short term Benefits	57,794,507	57,800,147
Retirement Benefits	3,577,453	3,476,915
	61,371,960	61,277,062

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 include the Bank's contribution for Employees' Provident Fund and Employees' Trust Fund with regard to KMP's.

43.4 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 allowance.

	2020 Rs.	2019 Rs.
Assets		
Loans and Advances	54,768,351	50,163,995
Liabilities		
Deposits and Borrowings	443,707,159	393,197,009
Income and Expenses		
Interest Income	1,275,004	2,130,776
Interest Expense	47,634,680	51,968,199
Fee and Commission Income	1,200	39,082

43.5 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 are controlled or joint controlled by the Key Management Personnel and their Close Family Members 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 allowance for individual impairment losses on amounts owed by related parties.

	2020 Rs.	2019 Rs.
Liabilities		
Deposits	1,104,708	2,933,531
Income and Expenses		
Interest Expense	1,836	366,339
Fee and Commission Income	100	10,500

44 EVENTS AFTER THE REPORTING DATE

No events after the reporting date since 31st December 2020 that require adjustments to or disclosures in the Financial Statements, other than disclosed below;

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. The Bank did not identify any events after the reporting date relating to COVID-19, which would require adjustments to or disclosures in the Financial Statements. Given the flowing nature of the current situation, the Bank will continue to often review forward looking assumptions and forecast economic scenarios.

45 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, 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 main objectives of the Bank's capital management policy are to ensure the Bank maintain sufficient capital to meet regulatory capital requirements, hold sufficient capital to support the Bank's risk appetite, provide additional capital to business segments to achieve strategic objectives, to provide a buffer in absorbing potential losses arising from various risks and safeguarding of depositor funds and ensuring that the Bank maintaining required capital levels in order to achieve credit rating objectives.

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 the shareholders or issue capital securities, all of which are under the constant review by the Board of Directors and the Board Committees.

The Banking Act Direction No. 01 of 2016 on "Capital Requirement 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 and other factors. Non systemically Important Banks) including Pan Asia Banking Corporation PLC need to maintain following minimum capital ratio requirements with effective from 1st January 2019.

NOTES TO THE FINANCIAL STATEMENTS

Components of Capital	Requirement
Common Equity Tier 1 Including Capital Conservation Buffer	7.00%
Total Tier 1 Including Capital Conservation Buffer	8.50%
Total Capital Ratio Including Capital Conservation Buffer	12.50%

However as an extraordinary relief measure in response to COVID-19 pandemic, Central Bank of Sri Lanka has reduced Capital Conservation Buffers (CCB) of all Non Systemically Important Banks by 50 bps with effective from 31st March 2020 until further notice.

Components of Capital	Requirement
Common Equity Tier 1 Including Capital Conservation Buffer	6.50%
Total Tier 1 Including Capital Conservation Buffer	8.00%
Total Capital Ratio Including Capital Conservation Buffer	12.00%

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. The other component of Tier 1 Capital is Additional Tier 1 Capital.

Tier 2 Capital is the other component of the Total Capital includes approved Revaluation Surpluses, Subordinated Term Debt, 100% of impairment for Stage 1 Assets and 50% of impairment for Stage 2 assets subject to maximum limit of 1.25% Risk Weighted Amount for Credit Risk.

The Bank reported a Common Equity Tier 1 (CET 1) Capital Ratio of 13.24%, Total Tier 1 Capital Ratio of 13.24% and Total Capital Ratio of 15.74% as at 31st December 2020 which remained well above the minimum regulatory requirements. The Bank has absorbed 75% of the Day 1 impact of SLFRS 9 adoption in computation of the above capital ratios as at 31st December 2020 as prescribed by Central Bank of Sri Lanka in the Guideline No. 04 of 2018 on 'Adoption of SLFRS 9 - Financial Instruments'.

In addition to above, the Bank originally required to enhance its Total Tier 1 Capital to Rs.20 billion by 31st December 2022 as required by the Banking Act Direction No. 05 of 2017 on 'Enhancement of Minimum Capital Requirements of Banks'. However, as a part of the extraordinary relief measures adopted by Central Bank of Sri Lanka to strengthen the resilience capital of the to support COVID-19 affected customers, the referred timeline has been deferred until end of 2022. As at 31st December 2020, the Bank's Tier 1 Capital stood at Rs.14.31 billion. The Board of Directors foresees that the above target needs to be met through a combination of internally generated funds of the Bank and infusion of fresh capital.

46 SEGMENT REPORTING

	2020			
	Retail & SME Banking	Corporate Banking	Treasury and Investments	Total
	Rs.	Rs.	Rs.	Rs.
Gross Income				
Third Party	16,119,487,561	1,473,450,609	3,288,486,247	20,881,424,417
Inter-Segment	1,657,060,582	(311,173,915)	(1,345,886,667)	-
Total Income	17,776,548,143	1,162,276,694	1,942,599,580	20,881,424,417
Extract of Results				
Interest Income	14,803,457,550	1,424,834,198	2,592,720,931	18,821,012,679
Interest Expense	(10,681,881,274)	(695,307,514)	(74,075,233)	(11,451,264,021)
Inter - Segment	1,657,060,582	(311,173,915)	(1,345,886,667)	-
Net Interest Income	5,778,636,858	418,352,769	1,172,759,031	7,369,748,658
Fees and Commission Income	1,298,250,789	47,781,708	-	1,346,032,497
Fees and Commission Expense	(57,468,114)	(1,625,000)	(10,875,528)	(69,968,642)
Net Fee and Commission Income	1,240,782,675	46,156,708	(10,875,528)	1,276,063,855
Net Gain from Trading	-	-	478,880,030	478,880,030
Other Operating Income	17,779,222	834,703	216,885,286	235,499,211
Total Operating Income	7,037,198,755	465,344,180	1,857,648,819	9,360,191,754
Impairment Charges on Financial Assets	(1,008,653,640)	(342,301,076)	(245,087,100)	(1,596,041,816)
Net Operating Income	6,028,545,115	123,043,104	1,612,561,719	7,764,149,938
Depreciation of Property, Plant and Equipment	(151,986,801)	(1,051,627)	(1,292,587)	(154,331,015)
Amortisation of Intangible Assets	(39,314,754)	-	(4,308,765)	(43,623,519)
Segment Result	5,837,243,560	121,991,477	1,606,960,367	7,566,195,404
Un-allocated Expenses	-	-	-	(4,037,994,434)
Operating Profit Before Taxes and Levies on Financial Services	-	-	-	3,528,200,970
Taxes and Levies on Financial Services	-	-	-	(690,034,538)
Profit Before Tax	-	-	-	2,838,166,432
Income Tax Expense	-	-	-	(789,998,057)
Profit for the Year	-	-	-	2,048,168,375
Other Comprehensive Income for the Year	-	-	-	20,212,165
Total Comprehensive Income for the Year	-	-	-	2,068,380,540
Segment Assets	118,036,025,916	8,703,366,888	43,919,725,325	170,659,118,129
Unallocated Assets	-	-	-	6,281,289,429
Total Assets	118,036,025,916	8,703,366,888	43,919,725,325	176,940,407,558
Segment Liabilities	145,160,606,693	9,501,833,858	1,768,278,890	156,430,719,441
Unallocated Liabilities and Equity	-	-	-	20,509,688,117
Total Liabilities and Equity	145,160,606,693	9,501,833,858	1,768,278,890	176,940,407,558
Cash Flows from/(used in) Operating Activities	5,591,060,399	9,407,930,731	(14,241,065,241)	757,925,889
Cash Flows from/(used in) Investing Activities				
Capital Expenditure				
Property, Plant & Equipment	(92,097,771)	(91,950)	-	(92,189,721)
Intangible Assets	(109,469,035)	-	-	(109,469,035)
Proceeds from Sale of Property, Plant & Equipment	138,036	-	-	138,036
Cash Flows from/(used in) Financing Activities	45,390,256	607,393,637	(1,551,629)	651,232,264

NOTES TO THE FINANCIAL STATEMENTS

	2019			
	Retail & SME Banking Rs.	Corporate Banking Rs.	Treasury and Investments Rs.	Total Rs.
Gross Income				
Third Party	16,121,442,657	2,168,459,264	3,617,760,137	21,907,662,058
Inter-Segment	2,309,682,413	(166,354,551)	(2,143,327,862)	-
Total Income	18,431,125,070	2,002,104,713	1,474,432,275	21,907,662,058
Extract of Results				
Interest Income	14,487,656,914	2,112,016,367	2,816,932,571	19,416,605,852
Interest Expense	(11,354,490,149)	(1,355,788,567)	(71,738,654)	(12,782,017,370)
Inter - Segment	2,309,682,413	(166,354,551)	(2,143,327,862)	-
Net Interest Income	5,442,849,178	589,873,249	601,866,055	6,634,588,482
Fees and Commission Income	1,548,451,568	57,425,440	-	1,605,877,008
Fees and Commission Expense	(48,873,315)	-	(11,685,737)	(60,559,052)
Net Fee and Commission Income	1,499,578,253	57,425,440	(11,685,737)	1,545,317,956
Net Gain from Trading	28,213,271	-	621,363,605	649,576,876
Other Operating Income	57,120,904	(982,543)	179,463,961	235,602,322
Total Operating Income	7,027,761,606	646,316,146	1,391,007,884	9,065,085,636
Impairment Charges on Financial Assets	(705,843,262)	(387,454,355)	(43,545,241)	(1,136,842,858)
Net Operating Income	6,321,918,344	258,861,791	1,347,462,643	7,928,242,778
Depreciation of Property, Plant and Equipment	(145,443,136)	(1,116,800)	(1,178,612)	(147,738,548)
Amortisation of Intangible Assets	(33,130,339)	-	(4,308,765)	(37,439,104)
Segment Result	6,143,344,869	257,744,991	1,341,975,266	7,743,065,126
Un-allocated Expenses	-	-	-	(4,340,385,939)
Operating Profit Before Taxes and Levies on Financial Services	-	-	-	3,402,679,187
Taxes and Levies on Financial Services	-	-	-	(1,088,540,188)
Profit Before Tax	-	-	-	2,314,138,999
Income Tax Expense	-	-	-	(563,569,904)
Profit for the Year	-	-	-	1,750,569,095
Other Comprehensive Income for the Year	-	-	-	331,575,855
Total Comprehensive Income for the Year	-	-	-	2,082,144,950
Segment Assets	100,798,853,277	13,855,463,861	30,541,889,364	145,196,206,502
Unallocated Assets	-	-	-	7,783,488,974
Total Assets	100,798,853,277	13,855,463,861	30,541,889,364	152,979,695,476
Segment Liabilities	123,894,664,025	7,019,287,713	4,096,858,689	135,010,810,427
Unallocated Liabilities and Equity	-	-	-	17,968,885,049
Total Liabilities and Equity	123,894,664,025	7,019,287,713	4,096,858,689	152,979,695,476
Cash Flows from/(used in) Operating Activities	4,600,306,744	(3,972,767,002)	7,049,904,511	7,677,444,253
Cash Flows from/(used in) Investing Activities				
Capital Expenditure				
Property, Plant & Equipment	(96,045,951)	(469,761)	(1,810,768)	(98,326,479)
Intangible Assets	(13,207,997)	-	-	(13,207,997)
Proceeds from Sale of Property, Plant & Equipment	758,793	3,711	14,306	776,810
Cash Flows used in Financing Activities	(6,645,223,160)	(1,423,643,718)	(2,276,294)	(8,071,143,172)

* The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year.

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 35 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.	Not Applicable
	(iii)	Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 18.4 and 19.2 to the Financial Statements
	(iv)	Reconciliation of the allowance account for credit losses by class of financial assets.	Note 14.1,18.6,19.4 and 29.2 to the Financial Statements
	(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 4-12 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 4.2 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 5 to the Financial Statements-Net Fee and Commission Income
	(iii)	Amount of impairment losses by class of financial assets.	Note 8 to the Financial Statements-Impairment charges on Financial Assets
	(iv)	Interest income on impaired (non performing) financial assets.	Note 4.3 to the Financial Statements
1.3	Other Disclosures		
1.3.1	Accounting policies for financial instruments.		Note 2.9 to the Financial Statements- Summary of Significant Accounting Policies

COMPLIANCE WITH DISCLOSURE REQUIREMENTS SPECIFIED BY THE CENTRAL BANK OF SRI LANKA

1.3.2	Financial liabilities designated as at FVTPL		
	(i)	If a bank is presenting the effects of changes in that financial liability's credit risk in other comprehensive income (OCI): - any transfers of the cumulative gain/loss within equity during the period, including the reasons for the transfers; - if the liability is derecognised during the period, then the amount (if any) presented in OCI that was realised at derecognition; - detailed description of the methodologies used to determine whether presenting the effects of changes in a liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss; and	Not Applicable
	(ii)	Detailed description, if the effects of changes in a liability's credit risk are presented in profit or loss.	Not Applicable
1.3.3	Investments in equity instruments designated as at FVOCI		
	(i)	Details of equity instruments that have been designated as at FVOCI and the reasons for the designation;	Not Applicable
	(ii)	Fair value of each investment at the reporting date;	Not Applicable
	(iii)	Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date;	Not Applicable
	(iv)	Any transfers of the cumulative gain or loss within equity during the period and the reasons for those transfers;	Not Applicable
	(v)	If investments in equity instruments measured at FVOCI are derecognised during the reporting period, - reasons for disposing of the investments; - fair value of the investments at the date of derecognition; and - the cumulative gain or loss on disposal	Not Applicable
1.3.4	Reclassifications of financial assets		
	(i)	For all reclassifications of financial assets in the current or previous reporting period: - date of reclassifications; - detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements; and - the amount reclassified into and out of each category.	Not Applicable
	(ii)	For reclassifications from FVTPL to amortised cost or FVOCI: - the effective interest rate (EIR) determined on the date of reclassification; and - the interest revenue recognised.	Not Applicable

	(iii)	For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI: - the fair value of the financial assets at the reporting date; and - the fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified.	Not Applicable
1.3.5	Information on hedge accounting		Not Applicable
1.3.6	Information about the fair values of each class of financial asset and financial liability, along with:		
	(i)	Comparable Carrying Amounts.	Note 36 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.	Not Applicable

2	Information about the Nature and Extent of Risks Arising from Financial Instruments		
2.1	Qualitative Disclosures		
2.1.1	Risk exposures for each type of financial instrument.		Note 37 to the Financial Statements- Risk Management
2.1.2	Management's objectives, policies, and processes for managing those risks		Note 37 to the Financial Statements- Risk Management
2.13	Changes from the prior period.		Not Applicable
2.2	Quantitative Disclosures		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.		Note 37 to the Financial Statements- Risk Management
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.		Note 37 to the Financial Statements- Risk Management
	(i)	Credit Risk - Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets. - For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset. - Information about collateral or other credit enhancements obtained or called.	Note 37.2 to the Financial Statements- Risk Management
		- Other disclosures refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Basel III Pillar 3 Disclosures on Pages 243 to 246

COMPLIANCE WITH DISCLOSURE REQUIREMENTS SPECIFIED BY THE CENTRAL BANK OF SRI LANKA

	(ii)	Liquidity Risk - A maturity analysis of financial liabilities. - Description of approach to risk management. - Other disclosures refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements Under Basel III for Licensed Banks.	Note 37.3 to the Financial Statements- Risk Management Report on pages 204 to 208 Basel III Pillar 3 Disclosures on Pages 251 to 255
	(iii)	Market Risk - A sensitivity analysis of each type of market risk to which the entity is exposed. - Additional information, if the sensitivity analysis is not representative of the entity's risk exposure. - Other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Note 37.4 to the Financial Statements- Risk Management Report on pages 209 to 212 Basel III Pillar 3 Disclosures on Pages 250 to 251
	(iv)	Operational Risk - Refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Basel III Pillar 3 Disclosures on Pages 255 to 258
	(v)	Equity risk in the Banking Book - Qualitative disclosures Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. - Quantitative disclosures Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value, the types and the nature of investments and the cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Note 37.4 to the Financial Statements- Risk Management Report on pages 209 to 212 Note 17.1 to the Financial Statements- Financial Assets at Fair Value through Profit or Loss
	(vi)	Interest rate risk in the Banking Book - Qualitative disclosures Nature of interest rate risk in the banking book (IRRBB) and key assumptions. - Quantitative disclosures The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	Basel III Pillar 3 Disclosures on Page 258

2.2.3	Information on concentration of risk	Note 37.2.9 to the Financial Statements- Risk Management Report on pages 202 to 203
3	Other Disclosures	
3.1	Capital	
3.1.1	Capital structure Qualitative disclosures - Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments. - Quantitative disclosures. (a) The amount of Tier 1 capital, with separate disclosure of: - Paid-up share capital/common stock - Reserves - Non-controlling interests in the equity of subsidiaries - Innovative instruments - Other capital instruments - Deductions from Tier 1 capital (b) The total amount of Tier 2 capital (c) Other deductions from capital (d) Total eligible capital	Basel III Pillar 3 Disclosures on Pages 234 to 239
3.1.2	Capital Adequacy	
	Qualitative disclosures - A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities. - Quantitative disclosures (a) Capital requirements for credit risk, market risk and operational risk (b) Total and Tier 1 capital ratio	Basel III Pillar 3 Disclosures on Pages 228 to 258

BASEL III PILLAR 3 DISCLOSURES

Contents

Introduction

The Bank recognises, best corporate governance practices jointly with effective risk management techniques which directs the Bank towards sustainable achievement in business goals while staying above the minimum regulatory requirements. 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 downside risks in all its businesses and other operations.

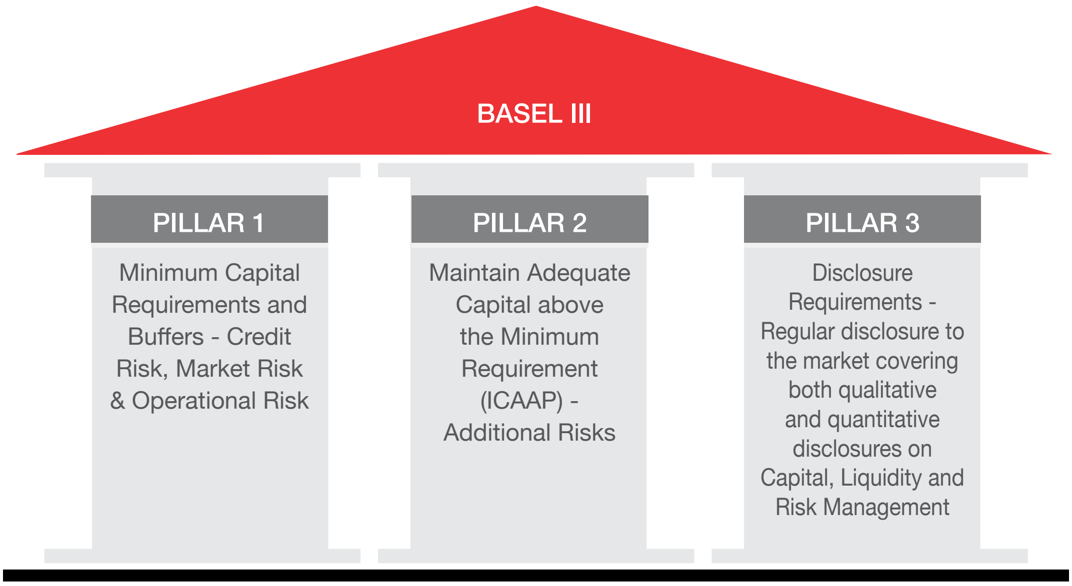
Based on empirical data and close analysis of market behaviour, the Bank is of the belief that effective investment in robust risk management practices would facilitate in mitigating the credit, market, operational and the other risk factors facing the Bank.

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 (LCBs) and Licensed Specialised Banks (LSBs) 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 1st 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, the Central Bank of Sri Lanka has identified banks with over Rs.500 billion asset base as "Domestic Systemically Important Banks (D-SIBs)" 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	01.01.2019
Common Equity Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	8.50%
Total Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	10.00%
Total Capital Ratio Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	14.00%

Minimum Capital Ratio Requirement for Banks with Assets less than Rs.500 billion (Table 2)

Components of Capital	01.01.2019
Common Equity Tier 1 Including Capital Conservation Buffer	7.00%
Total Tier 1 Including Capital Conservation Buffer	8.50%
Total Capital Ratio Including Capital Conservation Buffer	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.

However as per the letter issued by Governor of the Central Bank on 27.03.2020, under the extraordinary measures taken to provide flexibility to licensed banks to support COVID-19 affected customers, CBSL has release the capital conservation buffer by 100 bps for D-SIB banks and by 50 bps for non D-SIB banks until further notice. Accordingly Bank minimum capital requirement will be revised as follows;

Components of Capital	31.03.2020
Common Equity Tier 1 Including Capital Conservation Buffer	6.50%
Total Tier 1 Including Capital Conservation Buffer	8.00%
Total Capital Ratio Including Capital Conservation Buffer	12.00%

Higher Loss Absorbency (HLA) Requirements for Domestic Systemically Important Banks (D-SIBs)

Monetary Board of Central Bank has issued Banking Act Direction No.10 of 2019 "Framework for Dealing with Domestic Systemically Important Banks" on 20th December 2019.

This framework attempts to identify the banks whose failure has a larger impact on the financial system due to size, interconnectedness, lack of substitutability and complexity and requires maintaining Higher Loss Absorbency (HLA) by such banks.

Primary objective of the implementation of the D-SIBs framework is D-SIBs to hold higher capital buffers and to provide incentives to reduce their systemic importance on the domestic economy.

The minimum capital surcharge on D-SIBs are as follows:

Bucket	HLA Requirement (CET 1 as a % of Risk-Weighted Assets)
3	2.0
2	1.5
1	1.0

Factors Considered in Assessment of D-SIBs

Category	Individual Indicator	Category Weighting
Size	Total exposure (Total exposures used in the Basel III leverage ratio)	40%
Interconnectedness	Intra-financial system assets Intra-financial system liabilities Securities outstanding	20%
Substitutability/financial institution infrastructure	Assets under custody Trading volume Payments activity	20%
Complexity	Notional amount of derivatives Level 2 assets as reported under Liquidity Coverage Ratio Cross jurisdictional liabilities Cross jurisdictional claims Trading and Available For Sale (AFS) securities	20%

Licensed banks which are determined as D-SIBs, from time to time have to maintain additional HLA requirements as specified by the Monetary Board in the form of Common Equity Tier 1 Capital.

The Central Bank of Sri Lanka has specified the below operational timeline to implement the proposed framework.

Time	Task
April - 2020	Collect data from the selected banks
August - 2020	Assess collected data and identify the list of D-SIBs
October - 2020	Publish the list of D-SIBs that are subject to HLA requirement with the approval of the Monetary Board

However above was not implemented as per the scheduled time plan and latest update to be hear from the Central Bank of Sri Lanka in this regard.

The Monetary Board has determined the following licensed banks as D-SIBs and permitted below HLA requirements with immediate effect.

Licensed Banks Determined as D-SIBs

Bucket	Licensed Banks	HLA Requirement (CETI as a % of Risk-Weighted Assets)
3	N/A	2.0
2	Bank of Ceylon Commercial Bank of Ceylon PLC	1.5
1	People’s Bank Hatton National Bank PLC	1.0

However as per eligible criterion defined in the direction to be categorised as D-SIB, it is likely that additional HLA capital requirements will not be applicable for our Bank given the total exposure measure coming under Leverage Ratio is account for below the minimum exposure value of Rs.400 billion specified by the regulator under disclosure requirements in the directions.

The Bank’s Total exposures coming under Basel III leverage ratio was Rs.213.56 billion as at 31st December 2020.

BASEL III PILLAR 3 DISCLOSURES

Pillar 2 - Maintain Adequate Capital above the Minimum Requirement (ICAAP)

The Bank needs to maintain adequate capital buffers to safeguard itself 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 1)

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 Leverage Ratio
iv) Basel III Computation of Liquidity Coverage Ratio
v) Basel III Computation of Net Stable Funding Ratio
vi) 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

Macro Economic Outlook

Year 2020 became a challenging year for the banking industry given that the COVID-19 pandemic hit the country at the beginning of the year. The banking sector exhibited modest performance during the period under consideration amid subdued economic activities in the global and domestic economy due to the spread of the COVID-19. Economic growth which already dampened in 2019 due to the Easter Sunday attacks exacerbated in year 2020 amid the pandemic situation. As per the GDP estimates published by the Department of Census and Statistics (DCS), the Sri Lankan economy, which contracted by 1.7% and 16.3% in the first and second quarters of 2020, respectively, rebounded in the third quarter of 2020 and recorded a growth of 1.5%. However, the onset of the second wave of COVID-19 in the third quarter already dampened growth prospects in the fourth quarter of 2020.

Despite market lending rates adjusted downwards, credit to the private sector contracted in 1H of year 2020. However credit disbursed to the private sector expanded notably in the second half, reflecting the impact of low lending rates as well as concessional credit schemes. The expansion of credit to the private sector is expected to continue in the period ahead, despite the recent rise in COVID-19 infections, which is expected to be short-lived.

The Central Bank relaxed its monetary policy stance to unprecedented levels in 2020 with a view to reviving the economy affected by the pandemic. In response, both market deposit and lending rates declined notably in 2020. Most market interest rates have declined to single digit levels, while some have reached historic lows.

Operating in a very challenging, competitive and highly-regulated surrounding, the Bank sustained its asset growth during the year while giving priority to achieving of regulatory requirements as well.

The Bank's loans and advances portfolio grew notably 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.2.05 billion in 2020, the highest profit ever recorded, which accounts for a growth of 17% over the previous year.

BASEL III PILLAR 3 DISCLOSURES

Key Regulatory Ratios - Capital and Liquidity

As at 31st December	2020	2019
Regulatory Capital (Rs. 000)		
Total Common Equity Tier 1 Capital	14,657,973	12,853,473
Common Equity Tier 1 Capital	14,311,276	12,572,621
Tier 1 Capital	14,311,276	12,572,621
Total Capital	17,014,768	13,978,793
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.50%, 2019 - 7.00%)	13.24	12.87
Tier 1 Capital Ratio (Minimum Requirement - 8.00%, 2019 - 8.50%)	13.24	12.87
Total Capital Ratio (Minimum Requirement - 12.00%, 2019 - 12.50%)	15.74	14.31
Leverage Ratio (Minimum Requirement - 3%)	6.70	7.06
Regulatory Liquidity		
Statutory Liquid Assets DBU (Rs. 000)	43,213,986	33,932,700
Statutory Liquid Assets OBU (USD 000)	23,418	9,835
Statutory Liquidity Ratios		
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	27.83	24.93
Off-Shore Banking Unit (%)	42.36	23.61
Liquidity Coverage Ratio (Minimum Requirement - 90%, 2019 - 100%)		
Rupee (%)	177.36	128.84
All Currency (%)	211.57	165.02
Net Stable Funding Ratio (%) (Minimum Requirement - 90%, 2019 - 100%)	116.80	128.24

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 reviews 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 forecasts
- Current and future regulatory capital requirements
- 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. 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 behavior 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 Credit Monitoring Unit to ensure the facilities would not fall in to non performing status.

Manage the Risk Weighted Assets of the Bank

- Maintain Non Performing Loans (NPLs) 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 NPLs.
- 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.

Projected Capital Initiatives/Capital Sources

An assessment of the future capital requirement of the Bank is carried out by taking into 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 2020 with the contribution of anticipated internal capital generation over the period. However in view of further strengthening the total capital position and to support the forecasted credit growth, Bank raised Basel III compliant subordinated rupee debenture of Rs.820 million in July 2020.

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 the Central Bank of Sri Lanka, commencing from 31st December 2020 all Banks are mandated to enhance their Capital position (Common Equity Tier 1 Capital + Additional Tier 1 Capital) up to Rs.20 billion from the current level.

However under the extraordinary measures adopted by CBSL to strengthen the resilience capital of the LCBs to support COVID-19 affected customers, capital enhancement of LCBs has been deferred until end of 2022.

As at 31st December 2020, the Bank's Common Equity Tier 1 Capital stood at Rs.14.66 Billion and the Bank needs to enhance its Total Tier 1 Capital to Rs.20 billion by 31st December 2022. The Bank has already submitted a Capital Augmentation Plan to elevate capital up to Rs.20 Bn by end of 31st December 2022 to the industry prudential regulator with the Annual Internal Capital Adequacy Assessment Process (ICAAP) Document 2019. The Bank expects to meet Rs.20 Bn through a combination of internally generated funds of the Bank and infusion of fresh capital.

BASEL III PILLAR 3 DISCLOSURES

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 into 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 appropriation
- 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)
- 100% of impairment for assets in Stage 1 & 50% of impairment for assets in Stage 2 under SLFRS subject to maximum limit of 1.25% Risk Weighted Assets in 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 2020 is as follows,

As at 31st December 2020	Rs. 000
Common Equity Tier I (CETI) Capital after Adjustments	14,311,276
Total Common Equity Tier I (CET1) Capital before Adjustments	14,657,973
Stated Capital	3,614,253
Reserve Fund	641,125
Published Retained Earnings*	10,424,886
Published Accumulated Other Comprehensive Income (OCI)	(22,292)
Total Adjustments to CET1 Capital	346,697
Other Intangible Assets (net)	346,697
Additional Tier 1 (AT1) Capital after Adjustments	-
Tier 2 Capital after Adjustments	2,703,492
Total Tier 2 Capital	2,703,492
Qualifying Tier 2 Capital Instruments	820,000
Revaluation Gains	676,690
Eligible Provisions	1,206,802
Total Adjustments to Tier 2 Capital	-
Total Tier 1 Capital	14,311,276
Total Capital	17,014,768

* 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 %). Accordingly, the Bank has absorbed only 75% of the day 1 impact into the Retained Earnings for the purpose of computing CAR% as at 31st December 2020.

Basel III Computation of Capital Ratios

As at 31st December	2020 Rs. 000	2019 Rs. 000
Common Equity Tier 1 (CET1) Capital after Adjustments	14,311,276	12,572,621
Common Equity Tier 1 (CET1) Capital	14,657,973	12,853,473
Stated Capital	3,614,253	3,614,253
Reserve Fund	641,125	538,717
Published Retained Earnings	10,424,886	8,722,794
Published Accumulated Other Comprehensive Income (OCI)	(22,292)	(22,292)
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	346,697	280,852
Goodwill (net)	-	-
Intangible Assets (net)	346,697	280,852
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	2,703,492	1,406,172
Tier 2 Capital	2,703,492	1,406,172
Qualifying Tier 2 Capital Instruments	820,000	-
Revaluation Gains	676,690	308,496
Eligible Provisions	1,206,802	1,097,676
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	14,311,276	12,572,621
Total Tier 1 Capital	14,311,276	12,572,621
Total Capital	17,014,768	13,978,793
Total Risk Weighted Assets (RWA)	108,118,388	97,719,112
RWAs for Credit Risk	96,544,148	87,814,094
RWAs for Market Risk	178,491	37,736
RWAs for Operational Risk	11,395,748	9,867,281
CET1 Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	13.24	12.87
of which: Capital Conservation Buffer (%)	2.00	2.50
Total Tier 1 Capital Adequacy Ratio (%)	13.24	12.87
Total Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	15.74	14.31
of which: Capital Conservation Buffer (%)	2.00	2.50

BASEL III PILLAR 3 DISCLOSURES

Regulatory Changes/Capital Initiatives over the Period

- Tier 1 Capital has been changed during the period due to capitalisation of internal capital generation for 2020.
- Tier 2 Capital has been changed due to movements in impairment provision for stage 1 & stage 2 assets. Meanwhile Bank included revaluation surplus of Rs.244 Mn generated through revaluation of Bank's freehold land and buildings in Tier 2 Capital.
- Further the Bank raised Rs.820 Mn via Basel III Compliant Subordinated debentures in July 2020.

Leverage Ratio

The Basel Committee on Banking Supervision (BCBS) introduced a leverage ratio in the year 2010 under Basel III package of reforms with the intention of introducing a framework with a simple, transparent, non-risk based.

The Leverage Ratio acts as a credible supplementary measure to the risk based capital requirement in order to restrict the build-up of leverage in the banking sector, helping to avoid any destabilising deleveraging processes which can damage the broader financial system and the economy, and reinforce the risk-based requirements with a simple, non-risk based "backstop" measure.

The Central Bank has issued Direction No. 12 of 2018 on "Leverage Ratio under Basel III for Licensed Commercial Banks and Licensed Specialised Banks" on 28th December 2018.

Commencing from 1st January 2019, the minimum Leverage Ratio for licensed banks shall be 3% and needs to be computed as prescribed below.

$$\text{Leverage Ratio} = \frac{\text{Capital Measure}}{\text{Exposure Measure}} \times 100$$

Capital Measure is the Tier 1 Capital as specified in the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III and both on and off balance sheet exposures including derivative exposures has to be considered under exposure measure.

As at 31st December	2020	2019
	Rs. 000	Rs. 000
Tier 1 Capital	14,311,276	12,572,621
Total Exposures	213,562,780	178,168,232
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	172,731,290	150,145,299
Derivative Exposures	34,007,390	19,792,154
Securities Financing Transaction Exposures	3,862,420	5,213,808
Other Off-Balance Sheet Exposures	2,961,680	3,016,971
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)* 100	6.70	7.06

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	N/A
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	17th July 2020
Par Value of Instrument (Rs.)	N/A	100
Perpetual or Dated	Perpetual	Dated
Original Maturity Date	N/A	16th July 2025
Regulatory Treatment		
Instrument Type	Common Equity Tier 1	Tier 2 Capital
Amount recognised in Regulatory Capital (in Rs. Mn)	3,614	820
Accounting Classification (Equity/Liability)	Shareholders' Equity	Liability (Debenture Issued)
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.820 Mn) 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	14% (Semi Annual Interest Payment)
Non-Cumulative or Cumulative	Non Cumulative	Non Cumulative
Convertible or Non-Convertible	Non-Convertible	Convertible
If Convertible, Conversion Trigger (s)	N/A	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016
If Convertible, Fully or Partially	N/A	Fully
If Convertible, Mandatory or Optional	N/A	Mandatory
If Convertible, Conversion Rate	N/A	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share during the three months (03) period, immediately preceding the date of the Trigger Event.

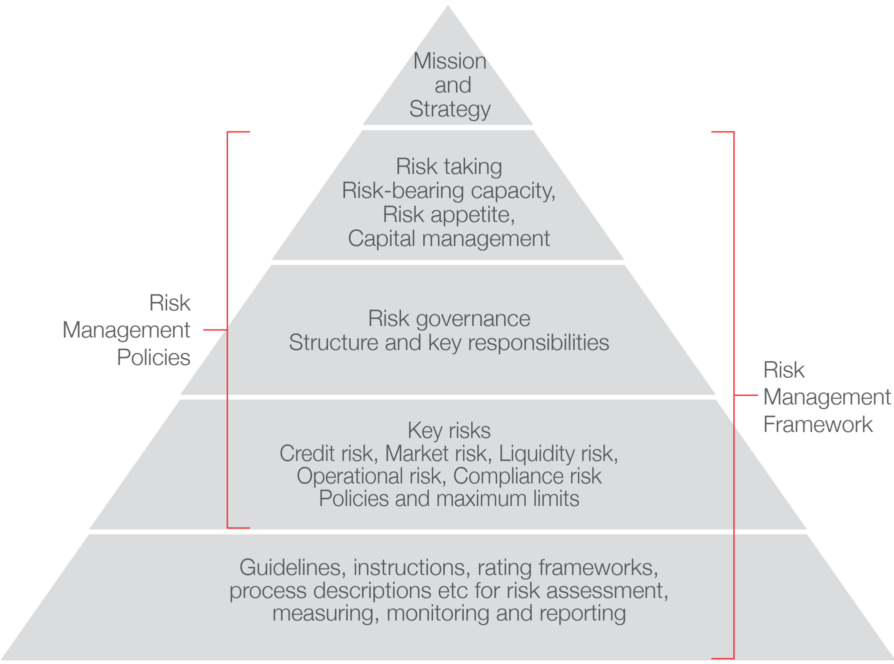
Risk Management Approach

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.

BASEL III PILLAR 3 DISCLOSURES

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 - page 190 of the Bank's Annual Report 2020
- Risk Management function – page 191 of the Bank's Annual Report 2020

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 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 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 a Risk aggregation matrix to assess the overall risk of the Bank by aggregating the overall score of each risk area. Risk dash boards 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, 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 their 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 development 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. Bank's exposures, activities, and risks when certain variables, parameters, and inputs are 'stressed' or 'shocked.'

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, credit insurance, credit derivatives 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 certainity, 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 counterparty to meet its obligation to pay the Bank in accordance with agreed terms. It is managed through a framework that setout credit policies and 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 criterion specified in the directions.

Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31st December 2020	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	46,137,822	-	36,889,378	-	2,872,616	8%
Claims on Bank's Exposures	251,083	39,021,298	251,083	780,426	872,643	85%
Claims on Financial Institutions	938,494	301,196	938,494	1,196	864,977	92%
Claims on Corporates	14,509,041	3,128,133	11,295,280	401,623	11,558,648	99%
Retail Claims	96,011,255	16,184,288	87,183,257	2,269,828	69,041,517	77%
Claims Secured by Gold	5,367,392	-	5,367,392	-	808,097	15%
Claims Secured by Residential Property	4,227,719	-	4,227,719	-	2,907,229	69%
Non-Performing Loans (NPLs)(i)	4,281,158	-	4,251,874	-	4,409,480	104%
Higher-risk Categories	6,158	-	6,158	-	9,237	150%
Cash Items and Other Assets	5,872,963	-	5,872,963	-	3,199,704	54%
Total Assets	177,603,085	58,634,915	156,283,598	3,453,073	96,544,148	60%

Notes:

(i) NPLs - As per Banking Act Direction No. 03 of 2008 (as amended subsequently) on classification of Loans and Advances, income recognition and provisioning.

(ii) RWA Density - Total RWA/Exposures post CCF and CRM.

The substantial growth in balance sheet stem from loans & advances has contributed for the increase in risk weighted assets.

BASEL III PILLAR 3 DISCLOSURES

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights - Post CCF & CRM

As at 31st December 2020	Risk Weight								Total Credit Exposures
Asset Class	0%	2%	20%	50%	60%	75%	100%	150%	
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Claims on Central Government and Central Bank of Sri Lanka	22,526,297	-	14,363,081	-	-	-	-	-	36,889,378
Claims on Banks Exposures	-	780,426	182,375	47,320	-	-	-	21,388	1,031,509
Claims on Financial Institutions	-	-	-	149,427	-	-	790,263	-	939,690
Claims on Corporates	-	-	214,527	567,358	-	-	10,690,476	224,542	11,696,903
Retail Claims	-	-	184,714	298,502	3,330,751	76,317,070	9,322,048	-	89,453,085
Claims Secured by Gold	1,326,906	-	4,040,486	-	-	-	-	-	5,367,392
Claims Secured by Residential Property	-	-	-	2,640,980	-	-	1,586,739	-	4,227,719
Non-Performing Loans (NPLs)	-	-	-	364,404	-	-	3,207,854	679,616	4,251,874
Higher-risk Categories	-	-	-	-	-	-	-	6,158	6,158
Cash Items and Other Assets	2,663,080	-	12,724	-	-	-	3,197,159	-	5,872,963
Total	26,516,283	780,426	18,997,907	4,067,991	3,330,751	76,317,070	28,794,539	931,704	159,736,671

Credit Risk under Standardised Approach Classified by Geographical Area of Debtor - Post CCF & CRM

As at 31st December 2020	Outside Sri Lanka	Province									Total
Asset Class		Central	Eastern	North Central	North Western	Northern	Sabaragamuwa	Southern	Uva	Western	
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Claims on Central Government and Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	36,889,378	36,889,378
Claims on Banks Exposures	251,083	-	-	-	-	-	-	-	-	780,426	1,031,509
Claims on Financial Institutions	-	-	-	-	-	-	343	-	-	939,347	939,690
Claims on Corporates	-	209,940	-	-	287,024	-	-	328,392	-	10,871,547	11,696,903
Retail Claims	-	12,097,647	2,169,976	4,177,748	6,127,148	1,342,098	4,556,000	7,260,432	2,694,462	49,027,574	89,453,085
Claims Secured by Gold	-	690,383	769,722	76,281	553,097	1,216,486	266,303	302,174	105,726	1,387,220	5,367,392
Claims Secured by Residential Property	-	340,989	31,530	58,014	88,818	77,312	104,257	356,293	30,909	3,139,597	4,227,719
Non-Performing Loans (NPLs)	-	544,012	76,519	143,317	208,914	95,922	252,246	217,438	55,731	2,657,775	4,251,874
Higher-risk Categories	-	-	-	-	-	-	-	-	-	6,158	6,158
Cash Items and Other Assets	-	-	-	-	-	-	-	-	-	5,872,963	5,872,963
Total	251,083	13,882,971	3,047,747	4,455,360	7,265,001	2,731,818	5,179,149	8,464,729	2,886,828	111,571,985	159,736,671

Non Performing Loans Vs Provisions- by Sector/Industry

(As per Regulatory Reporting)

As at 31st December 2020 Industry	NPL Capital Rs. 000	Specific Provision Rs. 000
Agriculture, Forestry & Fishing	889,642	668,678
Arts Entertainment & Recreation	85,224	12,106
Construction & Infrastructure Development	2,467,038	1,002,371
Consumption	1,657,040	1,050,415
Education	31,147	8,729
Financial Services	429,667	385,414
Health Care, Social Services & Support Services	18,000	2,176
Information Technology & Communication Services	62,116	30,143
Manufacturing	1,451,959	840,716
Professional, Scientific & Technical Activities	64,907	14,648
Tourism	400,126	117,456
Transportation & Storage	25,773	6,960
Wholesale & Retail Trade	1,159,394	362,230
Total	8,742,033	4,502,042

Non Performing Loans Vs Provisions- by Geography

(As per Regulatory Reporting)

As at 31st December 2020 Province	NPL Capital Rs. 000	Specific Provision Rs. 000
Central	842,133	259,557
Eastern	112,433	52,707
North Central	214,168	57,869
North Western	360,561	139,988
Northern	131,990	48,386
Sabaragamuwa	345,199	41,110
Southern	336,844	122,421
Uva	79,220	21,162
Western	6,319,485	3,758,849
Total	8,742,033	4,502,042

BASEL III PILLAR 3 DISCLOSURES

Gross Loans & Advances - by Sector/Industry

(As per Regulatory Reporting)

As at 31st December 2020	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	17,748,581	28,244	33,782	34,998	792,618	889,642	18,638,223
Arts, Entertainment & Recreation	382,237	-	148	52	85,024	85,224	467,461
Construction & Infrastructure Development	37,028,594	240,585	528,049	313,617	1,384,787	2,467,038	39,495,632
Consumption	28,849,424	184,903	192,853	310,000	969,284	1,657,040	30,506,464
Education	593,160	1,259	6,233	1,515	22,140	31,147	624,307
Financial Services	4,032,424	3,523	6,752	3,349	416,043	429,667	4,462,091
Health Care, Social Services & Support Services	449,551	9,960	4,803	2,066	1,171	18,000	467,551
Information Technology and Communication Services	370,400	1,351	1,328	4,366	55,071	62,116	432,516
Manufacturing	9,472,892	57,780	44,517	122,489	1,227,173	1,451,959	10,924,851
Professional, Scientific & Technical Activities	3,842,644	34,301	16,070	3,713	10,823	64,907	3,907,551
Tourism	3,054,371	9,679	9,763	20,386	360,298	400,126	3,454,497
Transportation & Storage	755,182	15,165	467	967	9,174	25,773	780,955
Wholesale & Retail Trade	13,238,972	169,980	109,064	79,992	800,358	1,159,394	14,398,366
Total	119,818,432	756,730	953,829	897,510	6,133,964	8,742,033	128,560,465

Gross Loans & Advances - by Geography

(As per Regulatory Reporting)

As at 31st December 2020	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
Central	13,838,138	45,684	36,313	46,140	713,996	842,133	14,680,271
Eastern	2,928,453	8,986	12,736	16,996	73,715	112,433	3,040,886
North Central	4,349,001	13,808	6,579	38,719	155,062	214,168	4,563,169
North Western	7,130,748	45,519	18,585	54,189	242,268	360,561	7,491,309
Northern	2,658,555	25,902	2,261	8,742	95,085	131,990	2,790,545
Sabaragamuwa	5,134,373	67,700	48,057	36,889	192,553	345,199	5,479,572
Southern	8,462,880	89,572	31,428	51,918	163,926	336,844	8,799,724
Uva	2,852,830	2,304	4,662	3,868	68,386	79,220	2,932,050
Western	72,463,454	457,255	793,208	640,049	4,428,973	6,319,485	78,782,939
Total	119,818,432	756,730	953,829	897,510	6,133,964	8,742,033	128,560,465

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 and sectors - page 70 of the Bank's Annual Report 2020 (Risk Management).
- Maximum Exposures to Credit Risk by asset class - page 198 of the Bank's Annual Report 2020.
- Industry Analysis of Financial Assets - pages 202 to 203 of the Bank's Annual Report 2020.
- Breakdown of credit exposures classified by residual maturity - pages 215 to 216 of the Bank's Annual Report 2020.
- 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 - page 200 of the Bank's Annual Report 2020.

Reconciliation of Regulatory Capital to Financial Statements

As at 31st December 2020	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	176,940,408	177,054,068	176,614,358	93,013	346,697
Cash and Cash Equivalents (Note 01)	2,914,163	2,917,287	2,917,287	-	-
Balances with Central Bank	2,583,394	2,583,394	2,583,394	-	-
Derivative Financial Instruments	93,013	93,013	-	93,013	-
Financial Assets recognised through Profit or Loss	-	-	-	-	-
Loans and Advances - at Amortised Cost (Note 02)	123,157,187	124,172,086	124,172,086	-	-
Debt and Other Instruments - at Amortised Cost (Note 02)	43,519,891	43,888,570	43,888,570		
Financial Assets - FVOCI	6,158	6,158	6,158	-	-
Property, Plant and Equipment	2,307,882	2,307,882	2,307,882	-	-
Right-of-Use Assets (Note 03)	983,365	-	-	-	-
Intangible Assets	346,697	346,697	-	-	346,697
Other Assets (Note 04)	1,028,658	738,981	738,981	-	-
Liabilities	161,543,239	161,097,490	-	-	-
Due to Banks	2,863,376	2,863,376	-	-	-
Derivative Financial Instruments	79,005	79,005	-	-	-
Due to Depositors - at Amortised Cost (Note 05)	141,079,707	141,336,901	-	-	-
Due to Debt Securities holders - at Amortised Cost (Note 04 - (b))	11,535,791	11,572,714	-	-	-
Current Tax Liabilities (Note 07)	825,102	1,019,268	-	-	-
Deferred Tax Liabilities (Note 07)	159,834	266,286	-	-	-
Other Provisions and Accruals	210,864	207,131	-	-	-
Other Liabilities (Note 06)	3,916,721	2,879,970	-	-	-
Subordinated Debentures	872,839	872,839	-	-	-
Off-Balance Sheet Liabilities					
Guarantees	2,953,151	2,953,151	2,953,151	-	-
Performance Bonds	926,826	926,826	926,826	-	-
Letters of Credit	1,793,099	1,793,099	1,793,099	-	-
Other Contingent Items	47,076,207	47,076,207	47,076,207	-	-
Undrawn Loan Commitments	14,979,200	14,979,200	14,979,200	-	-
Shareholders' Equity					
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 08)	10,179,069	10,758,593	-	-	-
Other Reserves (Note 08)	1,603,847	1,583,732	-	-	-
Total Shareholders' Equity	15,397,169	15,956,578	-	-	-

BASEL III PILLAR 3 DISCLOSURES

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 2020	Rs. 000
Cash and Cash Equivalents Value as per Published Financial Statements (SLFRSs)	2,914,163
Cash and Cash Equivalents Value as per Regulatory Reporting	2,917,287
Change in Value	(3,126)

Note 02- Financial Assets at Amortised Cost

(i) Loans and Advances

As at 31st December 2020	Rs. 000
Carrying Value as per Published Financial Statements (SLFRSs)	123,157,187
Carrying Value as per Regulatory Reporting	124,172,086
Change in Value (a + b)	(1,014,899)

(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 2020	Rs. 000
Loan Loss Provisions as per Published Financial Statements (SLFRSs)	(7,594,591)
Corresponding Provisions as per Regulatory Reporting	(6,969,280)
Change in Value	(625,311)

(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 2020	Rs. 000
Staff Loans as per Published Financial Statements (SLFRSs)	840,140
Staff Loans as per Regulatory Reporting	1,229,728
Change in Value	(389,588)

(ii) Debt and Other Instruments

The Bank recognises impairment provisions for the investments in Debt & other Instruments in accordance with SLFRS 9 - Financial Instruments. In accordance with the Standard, impairment provision has been allocated for the investment in Debentures, Sri Lanka Development Bonds & Sovereign Bonds.

As at 31st December 2020	Rs. 000
Carrying Value as per Published Financial Statements (SLFRSs)	43,519,891
Carrying Value as per Regulatory Reporting	43,888,570
Change in Value	(368,679)

Note 03 - Right-of-Use Assets

Assets held under lease is recognised as Right -of -Use Assets under SLFRS 16.

As at 31st December 2020	Rs. 000
Right-of-Use Asset as per Published Financial Statements (SLFRSs)	983,365
Right-of-Use Asset as per Regulatory Reporting	-
Change in Value	983,365

Note 04 - 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.389.59 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 remaining balance Rs.36.92 million of the unamortised issuance cost of the debt securities has been netted off with the financial liabilities in the Published Financial statements, where as in the regulatory reporting this has been presented under other assets.

(c) Prepaid Rental on Lease Agreements

The remaining balance Rs.62.99 million of the Prepaid Rent expenses has been net off with Right-of-Use Asset in Published Financial statements while this has been recognised under other assets in the regulatory reporting.

As at 31st December 2020	Rs. 000
Other Assets as per Published Financial Statements (SLFRSs)	1,028,658
Other Assets as per Regulatory Reporting	738,981
Change in Value (a + b + c)	289,677

Note 05 -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 2020	Rs. 000
Due to Depositors as per Published Financial Statements (SLFRSs)	141,079,707
Due to Depositors as per Regulatory Reporting	141,336,901
Change in Value	(257,194)

Note 06 -Other Liabilities

(a) Expected Credit Loss Adjustment on Financial Guarantees & Documentary Credit

Expected Credit Loss (ECL) adjustment on financial guarantees & documentary credit, issuing fee & commission income elimination adjustments of Rs.28.14 Mn relating to remaining contract periods on financial guarantees and documentary is included in the other liabilities reported in published financial statements.

(b) VAT Adjustment

Additional financial VAT liability of Rs.88.09 Mn has created due to change in profit.

(c) Impairment on Financial Guarantees & Documentary Credit

The Bank recognises impairment provisions for the financial guarantees & documentary credit in accordance with SLFRS 9 - Financial Instruments. Impairment provision of Rs.19.30 Mn allocated for investment such instruments is included in the other liabilities.

BASEL III PILLAR 3 DISCLOSURES

(d) Lease Liabilities
Rs.901.21 Mn has recognised under other liabilities as the Corresponding liability for the Right- of- Use asset.

As at 31st December 2020	Rs. 000
Other Liabilities as per Published Financial Statements (SLFRSs)	3,916,721
Other Liabilities as per Regulatory Reporting	2,879,970
Change in Value (a + b + c + d)	1,036,751

Note 07 -Current and Deferred Tax Liabilities
Current & Deferred tax liabilities have been re-stated with the above adjustments done in the published financial statements.

Note 08 - 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 prudent measures, the Bank has enforced internal limits on stop losses.

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 brokers. For forex spot rates, the Treasury Middle Office contacts a minimum of three brokers and 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 2020	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	-
(i) General Equity Risk	-
(ii) Specific Equity Risk	-
(c) RWA for Foreign Exchange & Gold	21,419
Risk Weighted Amount for Market Risk ((a+b+c) * Reciprocal of Total Capital Ratio)	178,491

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 tenures 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 Bank approach to manage interest rate risk can be found in pages 210 to 211 of Annual Report 2020 - 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).

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'.

Further Explanation on Bank approach to manage Foreign Exchange risk can be found in page 212 of Annual Report 2020 - Foreign Currency Risk.

Liquidity Risk

The ability for a Bank to meet its short term liability requirements primarily to honor the premature upliftments and general maturities is defined as the liquidity risk. The Statutory Liquidity Asset Ratio, Liquidity Coverage Ratio and Net Stable Funding 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.

BASEL III PILLAR 3 DISCLOSURES

Trends in Key Indicators

	2020	2019
Net Loans to Total Assets	69.60%	72.68%
Loans to Customer Deposits	94.73%	99.19%
Liquid Assets to Short-term Liabilities (Times)	12.55	10.16
Commitments to Liquid Assets	32.35%	54.18%

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 behavioral 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's approach to manage liquidity risk can be found on pages 206 to 208 of Annual Report 2020 - 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 into 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, NPL Ratio-Gross and Net NPL 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 2020;

Deposit Product	Mix
Demand Deposits	4%
Savings Deposits	20%
Time Deposits	73%
Certificate of Deposits	3%
Margin Deposits	0%
	100%

The Top 20 deposit holders of the Bank had a share of 12.90% out of the total deposit base of the Bank as at the year end.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) ensures the Bank maintains sufficient unencumbered High Quality Liquid Assets (HQLA) to survive a significant liquidity stress scenario over 30 day 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 for all currencies and for the rupee as stipulated in the direction. The ratio which initially starts from 60% minimum requirement has increased up to 100% on a staggered basis by 1st January 2019.

However, the Monetary Board of the Central Bank granted approval to licensed banks to operate maintaining a LCR at 90% up to 30.06.2021 as the possible adverse impact on liquidity and other key performance indicators of licensed banks due to the implementation of the credit support scheme to assist COVID-19 hit businesses and individuals, and the need to meet other urgent liquidity needs, considering it imperative to strengthen the liquidity position of the banks.

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 maintained LCR for the Rupee and all currencies well above the minimum requirement during year 2020.

BASEL III PILLAR 3 DISCLOSURES

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 Reserve, 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)	2020		2019	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Total Stock of High-Quality Liquid Assets (HQLA)	36,465,187	35,652,169	17,884,343	16,686,658
Total Adjusted Level 1 Assets	30,112,052	30,112,052	11,903,112	11,903,112
Level 1 Assets	30,252,004	30,252,004	11,848,613	11,848,613
Total Adjusted Level 2A Assets	6,353,135	5,400,165	5,278,368	4,486,613
Level 2A Assets	6,353,135	5,400,165	5,278,368	4,486,613
Total Adjusted Level 2B Assets	-	-	702,863	351,431
Level 2B Assets	-	-	702,863	351,431
Total Cash Outflows	157,505,009	20,530,867	137,992,204	14,377,161
Deposits	121,646,939	10,827,541	107,773,714	9,349,618
Unsecured Wholesale Funding	15,122,034	9,477,884	9,427,007	4,866,510
Secured Funding Transactions	655,000	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	20,652,276	141,682	20,791,483	161,033
Additional Requirements	83,759	83,759	-	-
Total Cash Inflows	7,484,691	3,679,417	8,494,655	4,265,565
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	7,230,484	3,679,417	8,242,674	4,247,958
Operational Deposits	254,208	-	234,373	-
Other Cash Inflows	-	-	17,607	17,607
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total net Cash Outflows over the Next 30 Calendar Days) *100		211.57%		165.02%

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the Net Stable Funding Ratio, which extends to one year.

The Central Bank has issued Direction No. 08 of 2018 on "Net Stable Funding Ratio under Basel III liquidity Standards for Licensed Commercial Banks and Licensed Specialised Banks" on 21st November 2018. As per the directions, the NSFR requirement came to full effect from 1st July 2019.

Effective Date	1st July 2019
Minimum Requirement	100%

However, the Monetary Board of the Central Bank granted approval to licensed banks to operate maintaining a NSFR at 90% up to 30th June 2021 as the possible adverse impact on liquidity and other key performance indicators of licensed banks due to the implementation of the credit support scheme to assist COVID-19 hit businesses and individuals, and the need to meet other urgent liquidity needs, considering it imperative to strengthen the liquidity position of the banks.

Available Stable Funding

Available Stable Funding (ASF) is defined as the portion of capital and liabilities expected to be reliable over the time horizon of one year. ASF factors such as 100%, 90%, 50% & 0% assigned according to presumed degree of stability of funding.

Required Stable Funding

Required Stable Funding (RSF) is a function of liquidity characteristics and residual maturities of various assets held and those of its off-balance sheet (OBS) exposures. RSF factors such as 0%, 5%, 10%, 15%, 50%, 65%, 85% and 100% are assigned to different asset categories accordingly.

As at 31st December	2020	2019
	Rs. 000	Rs. 000
Total Available Stable Funding	144,105,747	126,550,987
Required Stable Funding – On Balance Sheet Assets	123,240,780	98,532,948
Required Stable Funding – Off Balance Sheet Items	132,673	149,721
Total Required Stable Funding	123,373,453	98,682,668
NSFR	116.80%	128.24%

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.

BASEL III PILLAR 3 DISCLOSURES

Capital Requirement under BIA is given below;

Operational Risk under Basic Indicator Approach

As at 31st December 2020 Business Lines	Capital Charge Factor	Fixed Factor	Gross Income 1st Year Rs. 000	 2nd Year Rs. 000	 3rd Year Rs. 000
The Basic Indicator Approach	15%	-	9,360,192	9,065,086	8,924,518
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					1,367,490
Risk Weighted Amount for Operational Risk					
The Basic Indicator Approach					11,395,748

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 212 of the Annual Report 2020 - 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	Cash Transport - Per agreed rate according to the distance Cash 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 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 & 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 the 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's approach to manage interest rate risk can be found in pages 210 to 211 of the Annual Report 2020 - Interest Rate Sensitivity analysis of the Assets & Liabilities.

QUARTERLY STATISTICS

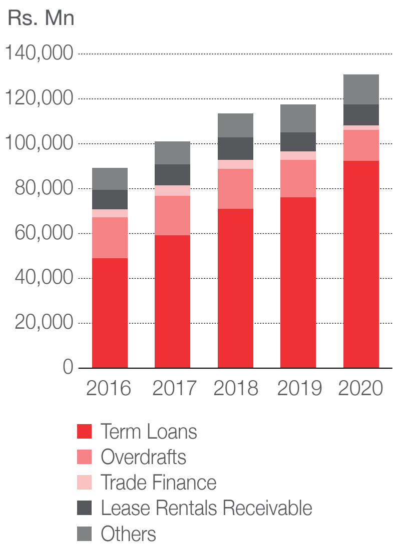
	2020				2019			
	31st December	30th September	30th June	31st March	31st December	30th September	30th June	31st March
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Extract of Statement of Financial Position								
Total Assets	176,940,408	173,130,260	163,711,982	168,428,098	152,979,695	152,048,645	150,296,750	152,024,891
Loans and Advances	123,157,187	120,981,433	118,599,605	117,393,682	111,187,855	107,096,202	104,202,742	104,331,537
Due to Depositors	141,079,707	137,604,474	131,230,634	129,513,876	122,544,024	117,448,113	117,782,582	114,416,189
Debentures	872,839	843,904	-	-	-	3,215,114	5,906,928	5,811,795
Shareholders' Funds	15,397,169	14,606,121	14,234,742	13,744,478	13,328,789	12,270,366	12,000,392	11,518,835
Extract of Statement of Comprehensive Income								
Net Interest Income	1,926,349	1,702,910	1,830,493	1,909,996	1,976,010	1,688,737	1,416,369	1,553,471
Other Income	540,139	523,490	405,280	521,534	644,389	600,633	647,914	537,561
Total Operating Income	2,466,488	2,226,400	2,235,772	2,431,530	2,620,399	2,289,370	2,064,283	2,091,032
Impairment Losses	(367,214)	(553,526)	(146,494)	(528,809)	17,969	(335,640)	(457,786)	(361,385)
Non-Interest Expenses	(1,125,955)	(1,240,851)	(1,308,315)	(1,250,863)	(1,588,730)	(1,440,248)	(1,282,476)	(1,302,652)
Income Tax Expense	(175,488)	(87,642)	(290,701)	(236,168)	(322,794)	(243,509)	157,537	(154,804)
Profit for the Quarter	797,832	344,381	490,263	415,689	726,844	269,973	481,558	272,191
Profitability(YTD) Ratios								
Net Interest Margin (%)	4.41	4.42	4.65	4.78	4.36	4.06	3.94	4.12
Earnings Per Share (Rs.)	4.63	2.83	2.05	0.94	3.96	2.31	1.70	2.49
Return on Equity (%)	14.36	11.95	13.23	12.35	14.50	11.60	13.12	9.70
Return on Assets (%)	1.23	1.01	1.13	1.04	1.15	0.89	1.00	0.72
Capital Adequacy Ratios								
Common Equity Tier I Capital Ratio (%)	13.24	12.82	11.78	11.71	12.87	12.25	12.67	11.73
Total Tier I Capital Ratio (%)	13.24	12.82	11.78	11.71	12.87	12.25	12.67	11.73
Total Capital Ratio (%)	15.74	15.11	13.35	13.25	14.31	13.68	14.28	13.37
Asset Quality Ratios								
Gross NPL (%)	6.73	6.38	5.89	6.03	6.31	6.56	6.48	5.85
Net NPL (%)	2.34	2.20	1.84	2.27	2.82	3.18	3.44	3.13
Liquidity Ratios								
Statutory Liquid Assets Ratio (SLAR)								
Domestic Banking Unit (%)	27.83	29.65	27.79	26.16	24.93	33.91	33.73	32.58
Foreign Currency Banking Unit (%)	42.36	38.73	32.01	24.84	23.61	22.15	20.43	20.99
Liquidity Coverage Ratio (LCR)								
Rupee (%)	177.36	173.84	135.22	104.09	128.84	131.83	205.55	172.54
All Currency (%)	211.57	205.07	208.15	129.45	165.02	132.07	222.64	164.33

ANALYSIS OF LOANS AND ADVANCES

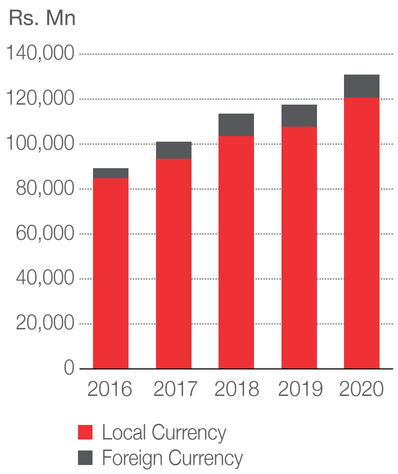
	2020 Rs. 000	2019 Rs. 000	2018 Rs. 000	2017 Rs. 000	2016 Rs. 000
By Product					
Term Loans	92,181,667	76,045,575	70,870,588	59,136,152	48,822,782
Overdrafts	13,866,114	16,787,688	17,936,818	17,703,444	18,446,880
Trade Finance	2,007,923	3,664,711	4,036,976	4,546,528	3,462,955
Lease Rentals Receivable	9,496,585	8,627,202	9,804,133	9,449,637	8,792,506
Others	13,199,490	12,378,000	10,845,909	10,119,619	9,649,053
Total	130,751,778	117,503,176	113,494,424	100,955,380	89,174,176
By Currency					
Sri Lankan Rupee	120,579,129	107,565,116	103,345,693	93,485,484	84,633,541
United States Dollar	3,789,295	3,904,780	3,917,082	3,424,961	2,727,977
Others	6,383,354	6,033,280	6,231,649	4,044,935	1,812,658
Total	130,751,778	117,503,176	113,494,424	100,955,380	89,174,176

Note: Financial data of previous years have been re-classified/re-stated to conform with SLFRS 9 requirements.

BY PRODUCT



BY CURRENCY

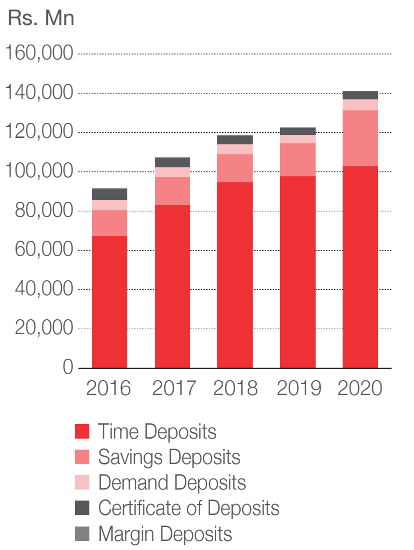


ANALYSIS OF DUE TO DEPOSITORS

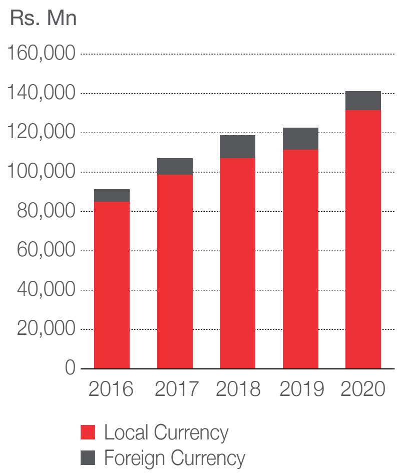
	2020 Rs. 000	2019 Rs. 000	2018 Rs. 000	2017 Rs. 000	2016 Rs. 000
By Product					
Demand Deposits	5,847,739	4,375,636	4,871,475	4,815,485	5,141,991
Savings Deposits	28,339,136	16,910,775	14,404,715	14,159,616	13,452,803
Time Deposits	102,766,776	97,528,927	94,475,049	83,200,483	67,047,837
Certificate of Deposits	3,825,672	3,521,230	4,359,723	4,603,819	5,488,402
Margin Deposits	300,385	207,456	516,387	413,627	325,377
Total	141,079,707	122,544,024	118,627,349	107,193,030	91,456,410
By Currency					
Sri Lankan Rupee	131,388,842	111,342,539	107,090,457	98,574,959	84,851,489
United States Dollar	7,789,043	8,940,128	9,369,827	6,730,046	5,191,710
Others	1,901,822	2,261,357	2,167,065	1,888,025	1,413,211
Total	141,079,707	122,544,024	118,627,349	107,193,030	91,456,410

Note: Financial data of previous years have been re-classified/re-stated to conform with SLFRS 9 requirements.

BY PRODUCT



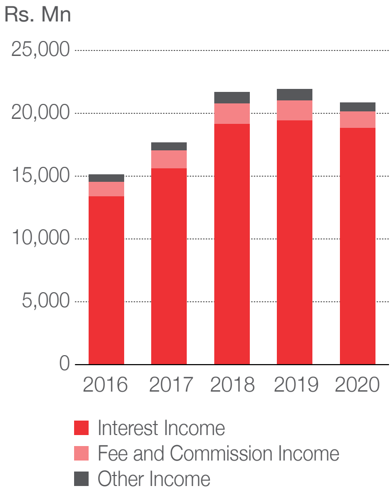
BY CURRENCY



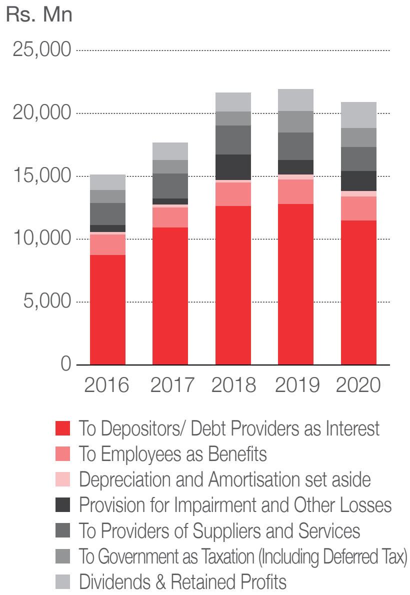
SOURCES & DISTRIBUTION OF INCOME

	2020 Rs. 000	2019 Rs. 000	2018 Rs. 000	2017 Rs. 000	2016 Rs. 000
Sources of Income					
Interest Income	18,821,013	19,416,606	19,157,136	15,616,014	13,366,543
Fee and Commission Income (Net)	1,346,032	1,605,877	1,626,410	1,408,276	1,175,173
Other Income	714,379	885,179	888,648	660,382	603,026
Total	20,881,424	21,907,662	21,672,194	17,684,672	15,144,742
Distribution of Income					
To Depositors and Debt Providers as Interest	11,451,264	12,782,017	12,638,841	10,909,740	8,733,164
To Employees as Benefits	1,942,765	1,973,310	1,863,074	1,624,035	1,613,604
Depreciation and Amortisation set aside	416,617	387,704	193,811	213,491	225,283
Provision for Impairment Losses	1,596,042	1,136,843	2,017,147	494,386	528,108
To Providers of Supplies and Services	1,925,847	2,207,426	2,343,093	1,977,041	1,753,738
To Government as Taxation	1,500,721	1,669,793	1,074,585	1,075,477	1,039,140
Income Tax (Including Deferred Tax)	789,998	563,570	368,014	484,954	543,231
Taxes and Levies on Financial Services	690,035	1,088,540	690,999	576,478	483,265
Crop Insurance Levy	20,689	17,683	15,572	14,045	12,644
To Shareholders as Dividends & Retained Profits	2,048,168	1,750,569	1,541,643	1,390,502	1,251,705
Total	20,881,424	21,907,662	21,672,194	17,684,672	15,144,742

SOURCES OF INCOME



DISTRIBUTION OF INCOME



VALUE ADDED STATEMENT

	2020		2019	
	Rs. 000	%	Rs. 000	%
Value Added				
Income from Banking Services	20,881,424		21,907,662	
Cost of Funds and Services	(13,324,272)		(14,534,580)	
Value Added by Banking Services	7,557,152		7,373,082	
Impairment Losses	(1,596,042)		(1,136,843)	
Total	5,961,111		6,236,239	
Distribution of Value Added				
To Employees				
Salaries and Other Benefits	1,942,765	33%	1,973,310	32%
To Debenture Holders				
Interest to Debenture Holders	52,839	1%	454,863	7%
To Government				
Income Tax (Including Deferred Tax)	789,998		563,570	
Taxes and Levies on Financial Services	690,035		1,088,540	
Crop Insurance levy	20,689		17,683	
	1,500,721	25%	1,669,793	27%
To Expansion and Growth				
Retained Profits	2,048,168		1,750,569	
Depreciation and Amortisation	416,617		387,704	
	2,464,785	41%	2,138,273	34%
Total	5,961,111	100%	6,236,239	100%

DISTRIBUTION OF VALUE ADDED - 2020

To Employees	33%
To Debenture holders	1%
To Government	25%
To Expansion & Growth	41%

DISTRIBUTION OF VALUE ADDED - 2019

To Employees	32%
To Debenture holders	7%
To Government	27%
To Expansion & Growth	34%

DECADE AT A GLANCE

Rs. Mn

For the Year ended 31st December	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Results										
Gross Income	5,278.21	7,766.22	9,054.03	8,843.95	10,759.14	15,144.75	17,684.67	21,672.19	21,907.66	20,881.42
Interest Income	4,582.66	6,766.83	7,976.95	7,541.72	9,038.97	13,366.55	15,616.01	19,157.13	19,416.61	18,821.01
Interest Expense	2,268.62	4,360.68	5,881.65	4,801.74	5,076.38	8,733.16	10,909.74	12,638.84	12,782.02	11,451.26
Net Interest Income	2,314.04	2,406.15	2,095.30	2,739.98	3,962.59	4,633.39	4,706.27	6,518.29	6,634.59	7,369.75
Other Income	695.55	999.39	1,077.08	1,302.23	1,720.17	1,778.20	2,068.66	2,515.06	2,491.06	2,060.41
Operating Expenses	1,540.61	2,002.94	2,201.84	2,477.07	3,038.74	3,605.27	3,828.61	4,415.55	4,586.12	4,305.92
Impairment Charges	121.92	47.88	743.26	814.85	750.53	528.11	494.39	2,017.15	1,136.84	1,596.04
Taxes and Levies on Financial Services	193.09	209.31	104.53	216.08	361.87	483.27	576.48	691.00	1,088.54	690.03
Profit before Income Tax	1,153.97	1,145.41	122.75	534.21	1,531.62	1,794.94	1,875.45	1,909.65	2,314.14	2,838.17
Income tax	342.20	285.36	8.91	119.00	491.10	543.23	484.95	368.01	563.57	790.00
Profit for the Year	811.77	860.05	113.84	415.21	1,040.52	1,251.71	1,390.50	1,541.64	1,750.57	2,048.17
As at 31st December										
Assets										
Cash and Cash Equivalents	2,430.15	1,203.05	1,203.74	1,334.41	1,393.27	1,703.45	1,665.04	2,214.11	1,708.27	2,914.16
Balances with Central Bank of Sri Lanka	2,250.43	3,516.87	2,799.58	3,247.64	4,166.74	6,218.56	6,884.02	6,481.99	5,333.20	2,583.39
Placements with Banks	-	500.13	104.62	-	-	75.10	237.37	-	-	-
Derivative Financial Instruments	1.51	0.05	2.76	5.21	1.54	26.28	16.09	0.21	0.44	93.01
Financial Assets - FV	190.98	12.38	9,170.42	1,414.70	14.71	629.74	4,549.19	11.63	168.18	-
Loans and Advances	33,898.00	42,031.80	41,561.53	52,974.81	75,143.20	86,498.15	98,743.82	108,168.86	111,187.86	123,157.19
Debt and Other Instruments	5,982.27	6,077.62	6,028.64	17,532.44	24,654.44	31,843.17	23,336.40	34,074.56	30,080.09	43,519.89
Financial Assets - FVOCI	2.14	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16
Property, Plant and Equipment	1,026.34	1,224.24	1,204.30	1,458.55	1,470.35	1,489.39	1,989.97	1,934.57	2,333.96	2,307.88
Right-of-Use Assets	-	-	-	-	-	-	-	-	911.84	983.37
Intangible Assets	52.15	73.58	65.80	50.61	329.13	315.70	284.39	305.08	280.85	346.70
Deferred Tax Assets	-	-	-	-	-	-	-	4.93	-	-
Other Assets	1,164.92	1,428.41	2,770.90	1,580.74	603.43	645.38	789.24	824.18	968.85	1,028.66
Total Assets	46,998.89	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69	154,026.28	152,979.70	176,940.41
Liabilities										
Due to Banks & Debt Securities Issued	4,916.09	1,121.65	4,743.51	4,294.47	14,612.56	21,001.34	10,963.69	15,039.81	12,466.68	14,399.17
Derivative Financial Instruments	1.26	0.63	24.63	-	2.14	-	7.37	0.11	0.11	79.01
Due to Depositors	36,353.39	47,911.09	53,835.90	64,895.23	77,697.05	91,456.41	107,193.03	118,627.35	122,544.02	141,079.71
Current Tax Liabilities	227.90	151.31	-	-	114.94	411.03	550.34	785.74	752.29	825.10
Deferred Tax Liabilities	121.69	177.13	150.79	281.98	391.74	445.77	630.73	-	132.78	159.83
Other Liabilities and Provisions	1,697.87	1,694.06	1,330.16	1,564.01	1,276.69	1,314.21	1,339.59	2,517.44	3,755.03	4,127.58
Debentures	-	785.83	784.69	3,834.95	7,914.58	7,950.17	7,147.05	5,809.19	-	872.84
Total Liabilities	43,318.20	51,841.70	60,869.68	74,870.64	102,009.70	122,578.93	127,831.80	142,779.64	139,650.91	161,543.24
Shareholders' Funds										
Stated Capital	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	3,614.25	3,614.25	3,614.25	3,614.25
Reserves	2,131.72	2,683.62	2,499.80	3,185.66	4,224.30	5,323.18	7,055.64	7,632.39	9,714.54	11,782.92
Total Shareholders' Funds	3,680.69	4,232.59	4,048.77	4,734.63	5,773.27	6,872.15	10,669.89	11,246.64	13,328.79	15,397.17
Total Liabilities and Shareholders' Funds	46,998.89	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69	154,026.28	152,979.70	176,940.41
Commitments and Contingencies	15,331.43	13,743.92	26,124.67	22,200.09	26,223.21	25,458.17	32,426.39	44,169.94	46,999.03	67,728.48
Share Information										
Earnings per Share (Rs.)	2.75	2.92	0.39	1.41	3.53	4.01	3.31	3.48	3.96	4.63
Net Asset Value per Share (Rs.)	8.32	9.56	9.15	10.70	13.05	15.53	24.11	25.41	30.12	34.79
Other Information										
No. of Employees	1,096	1,153	1,169	1,302	1,420	1,458	1,472	1,497	1,629	1483
No. of Branches	64	73	77	78	79	82	85	85	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 2020.
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	121
7.6 (ii)	Principal activities of the entity during the year and any changes therein.	Notes to the Financial Statements (Note 1 - Corporate Information)	140
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	266
7.6 (iv)	Public Holding information and Market capitalisation; • The Public Holding percentage and Number of Shares held by Public • Market capitalisation • Float adjusted market capitalisation • The option of complying with the Minimum Public Holding requirement	 Item 02 of the Investor Relations Item 10 of the Investor Relations Item 02 of the Investor Relations Item 02 of the Investor Relations	 266 270 267 266
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	121
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Item 05 of the Investor Relations	270
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	Item 06 of the Investor Relations	270
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 21.5) Item 11 of the Investor Relations	175 270
7.6 (ix)	Number of shares representing the Entity's Stated Capital.	Notes to the Financial Statements (Note 32)	184
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	268
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 Not Applicable Corporate Information	 269 269 - IBC
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 21)	174
7.6 (xiii)	Details of funds raised through public issues, Right Issues, and Private Placements during the year.	Not Applicable	-
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	270
9.3.2.(b)	Disclosure of recurrent Related Party Transactions.	Item No. 8 of Investor Relations	270
9.3.2.(c)	Report of the Board Related Party Transactions Review Committee containing specified disclosures.	Board Related Party Transactions Review Committee	118
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	121

INVESTOR RELATIONS

1. Stock Exchange Listing

The issued ordinary voting shares of Pan Asia Banking Corporation PLC are listed in the Colombo Stock Exchange.

Instrument	Type	Security Code
Voting Shares	Ordinary	PABC N0000

The Audited Statement of Financial Position as at 31st December 2020 and Audited Income statement for the year ended 31st December 2020 of the Bank will be submitted to the Colombo Stock Exchange within 3 months from the Statement of Financial Position date.

2. Names, Number and Percentage of Shares held by Twenty Largest Shareholders.

As at 31st December 2020

No	Name of Shareholder	No. of Shares	%
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	K. D. H. Perera	23,305,998	5.27
6	P. J. Tay	21,917,994	4.95
7	K. D. A. Perera	19,200,000	4.34
8	D. C. C. Joseph	15,206,742	3.44
9	Imminent Technologies (Pvt) Ltd	14,137,697	3.19
10	Sri Lanka Samurdhi Authority	11,114,376	2.51
11	Sri Lanka Savings Bank Limited	10,298,499	2.33
12	R. A. De Silva	2,201,229	0.49
13	H. Beruwalage	2,046,648	0.46
14	Commercial Bank of Ceylon PLC/Andaradeniya Estate (Pvt) Ltd	1,422,462	0.32
15	D. M. I. Dissanayake	1,400,101	0.32
16	D. T. Beruwalage	1,161,448	0.26
17	M. B. U. N. Fernando	1,020,000	0.23
18	A. P. Somasiri	1,000,000	0.23
19	DFCC Bank PLC/N G N Maduranga	981,085	0.22
20	Little Smile Organic (Pvt) Ltd	826,017	0.19
	Sub Total	397,582,582	89.84
	Balance held by 4,892 Shareholders	44,979,047	10.16
	Total Number of Shares	442,561,629	100.00

As at 31st December 2019

No	Name of Shareholder	Number of Shares	%
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	K. D. H. Perera	23,305,998	5.27
6	D. C. C. Joseph	23,247,896	5.25
7	P. J. Tay	21,917,994	4.95
8	K. D. A. Perera	19,200,000	4.34
9	Imminent Technologies (Pvt) Ltd.	12,627,697	2.85
10	Sri Lanka Samurdhi Authority	11,114,376	2.51
11	Sri Lanka Savings Bank Limited	10,298,499	2.33
12	A. R. Molligoda	3,737,319	0.84
13	H. Beruwalage	2,046,648	0.46
14	R. A. De Silva	1,914,915	0.43
15	D. M. I. Dissanayake	1,486,501	0.34
16	M. F. Hashim	1,245,960	0.28
17	D. T. Beruwalage	1,161,448	0.26
18	M. B. U. N. Fernando	1,020,000	0.23
19	Favourite Garments (Pvt) Ltd.	1,000,000	0.23
20	A. P. Somasiri	1,000,000	0.23
	Sub Total	406,667,537	91.89
	Balance held by 4,317 Shareholders	35,894,092	8.11
	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 2020 was 54.96% in the hands of 4,905 public shareholders. (31st December 2019 - 55% in the hands of 4,331 Shareholders).

Float Adjusted Market Capitalisation as at 31st December 2020 was Rs.3,162,014,326/- (31st December 2019 - Rs.3,115,633,868/-) and Bank complies with option No 04.

INVESTOR RELATIONS

3. Distribution Schedule of the Number of Shareholders and Percentage of Shareholding.

The total number of shareholders as at 31st December 2020 were 4,912 (31st December 2019 - 4,337).

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	1,058	39,068	0.01%	3	72	0.00%	1,061	39,140	0.01%
101 - 1,000	1,645	820,852	0.19%	6	4,000	0.00%	1,651	824,852	0.19%
1,001 - 5,000	1,105	2,939,035	0.66%	9	25,500	0.01%	1,114	2,964,535	0.67%
5,001 - 10,000	359	2,818,508	0.64%	6	50,732	0.01%	365	2,869,240	0.65%
10,001 - 50,000	502	11,748,923	2.65%	9	248,008	0.05%	511	11,996,931	2.70%
50,001 - 100,000	112	8,147,950	1.84%	2	122,650	0.03%	114	8,270,600	1.87%
100,001 - 500,000	68	12,820,685	2.90%	-	-	-	68	12,820,685	2.90%
500,001 - 1,000,000	11	8,000,166	1.81%	-	-	-	11	8,000,166	1.81%
1,000,001 and above	15	306,473,240	69.25%	2	88,302,240	19.95%	17	394,775,480	89.20%
Total	4,875	353,808,427	79.95%	37	88,753,202	20.05%	4,912	442,561,629	100.00%

Analysis 1.1

Range of Shareholding	2020			2019		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Resident Shareholders	4,875	353,808,427	79.95%	4,302	353,817,857	79.95%
Non Resident Shareholders	37	88,753,202	20.05%	35	88,743,772	20.05%
Total	4,912	442,561,629	100.00%	4,337	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	1,050	38,519	0.01%	11	621	0.00%	1,061	39,140	0.01%
101 - 1,000	1,622	812,082	0.18%	29	12,770	0.00%	1,651	824,852	0.18%
1,001 - 5,000	1,087	2,870,629	0.65%	27	93,906	0.02%	1,114	2,964,535	0.67%
5,001 - 10,000	343	2,682,250	0.61%	22	186,990	0.04%	365	2,869,240	0.65%
10,001 - 50,000	469	10,882,308	2.46%	42	1,114,623	0.25%	511	11,996,931	2.71%
50,001 - 100,000	92	6,630,796	1.50%	22	1,639,804	0.37%	114	8,270,600	1.87%
100,001 - 500,000	47	8,785,452	1.99%	21	4,035,233	0.91%	68	12,820,685	2.90%
500,001 - 1,000,000	6	4,224,880	0.95%	5	3,775,286	0.86%	11	8,000,166	1.81%
1,000,001 and above	11	247,487,559	55.92%	6	147,287,921	33.28%	17	394,775,480	89.20%
Total	4,727	284,414,475	64.27%	185	158,147,154	35.73%	4,912	442,561,629	100.00%

Analysis 2.1

Range of Shareholding	2020			2019		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Individual Shareholders	4,727	284,414,475	64.27%	4,155	289,662,776	65.45%
Institutional Shareholders	185	158,147,154	35.73%	182	152,898,853	34.55%
Total	4,912	442,561,629	100.00%	4,337	442,561,629	100.00%

4. Information on Ratios and Market Prices

i) Ratios

Year	2020	2019
Dividend Per Share (Rs.)	-	-
Dividend Payout (%)	-	-
Net Assets Value per Share (Rs.)	34.79	30.12
Debt to Equity (Times)	0.74	0.69
Interest Cover (Times)	0.06	2.78
Statutory Liquid Asset Ratio (%)		
Domestic Banking Unit	27.83	24.93
Foreign Currency Banking Unit	42.36	23.61
Liquidity Coverage Ratio (%)		
Rupee	177.36	128.84
All Currency	211.57	165.02

ii) Market Price - Ordinary Shares

Year	2020 Rs.	2019 Rs.
Highest	14.70	15.00
Lowest	6.10	11.70
Year End	13.00	12.80

INVESTOR RELATIONS

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 Colombo Stock Exchange (CSE) are discussed in the Note 37 to the Financial Statements, Future Outlook in page 41, Responding to COVID-19 pandemic in page 67 and Risk Management Report on pages 68 to 74.

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 2020. 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 Issues in prior years

The Bank has not raised funds through public issues, rights issues and private placements during the year (2020).

10. Market Capitalisation

Market Capitalisation as at 31st December 2020 - Rs.5,753,301,177/- (31st December 2019 - Rs.5,664,788,851/-)

11. Number of buildings owned by the Bank

The Bank owns two buildings as at 31st December 2020 the details of which are disclosed in Note 21.5 to the Financial Statements.

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 uncollectability.

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 inter-exchangebly.

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's ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

GLOSSARY OF FINANCIAL & BANKING TERMS

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 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.

Earnings Yield
Shows how much an investor earned compared to market price.

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
Lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

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.

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 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.

Float Adjusted Market Capitalisation
Float adjusted market capitalisation is the market value of public shareholding of the listed 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.

Forward Looking Information
Incorporation of macroeconomic scenarios into the impairment calculations.

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

Incremental Borrowing Rate
The rate Bank uses to discount the future lease liabilities in recognition of Lease rentals and Right-of-Use assets.

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

Leverage Ratio
The leverage ratio measures how leveraged a bank capital is in relation to its consolidated assets, derivatives exposures and off-balance sheet items. The leverage ratio constrains the degree to which the bank can leverage its capital and improve the extent to which it can sustain negative shocks to its balance sheet.

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.

GLOSSARY OF FINANCIAL & BANKING TERMS

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.

Moratorium Period
A moratorium period is a period during a loan term when the borrower is not obligated to make a payment. It is a waiting period before the borrower starts making fixed monthly payments.

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
Total 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 and inter-bank borrowings etc.

Net Open Position
Net Open Position or "NOP" means the net sum of all foreign currency assets and liabilities of a financial institution, inclusive of all of its spot and forward transactions and off balance sheet items in that foreign currency.

Net Stable Funding Ratio (NSFR)
NSFR measures the amount of longer-term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Non-Performing Loans Ratio (Gross)
Total Non-Performing Loans net of interest in suspense divided by total advances portfolio net of interest in suspense.

Non - Performing Loans Ratio (Net)
Total Non - Performing Loans 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

Price to Book Value
Shows a comparison of Bank's market to book value.

Past Due
A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Price Earnings Ratio
Times the Bank need to earn in order to cover the Bank's market price.

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.

Provision Cover
Total provisions for loan losses expressed as a percentage of Net Non-Performing Loans and Advances before discounting for provisions on Non-Performing Loans and Advances.

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.

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
Re-scheduled 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 'Non Performing' status as defined in the relevant regulatory directions.

Re-structured Credit Facilities
Re-structured 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 'Performing' status as defined in the relevant regulatory directions.

Return on Assets (ROA) - After Tax
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.

Right-of-Use Assets
Right-of-Use Assets include assets recognised at the present value of future lease rentals less any amortisation and impairment accumulated at the date of reporting.

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.

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.

Standing Deposit Facility
Standing Deposit Facility allows the Central Bank of Sri Lanka to absorb liquidity from commercial banks without giving government securities in return to the banks. In this sense, the Standing Deposit Facility (SDF) is a collateral free arrangement that CBSL need not give collateral for liquidity absorption.

Statutory Reserve Fund
A reserve created as per the provisions of the Banking Act No. 30 of 1988.

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 SIXTH ANNUAL GENERAL MEETING of PAN ASIA BANKING CORPORATION PLC will be held as a virtual meeting emanating from the Board Room of Pan Asia Banking Corporation PLC, No. 450, Galle Road, Colombo 03 on 31st March 2021 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 2020 with the Report of the Auditors thereon.

2. To re-elect, Sarath Rangamuwa, 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, Mohan Abeynaike, 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 2021.

5. To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.

By Order of the Board

N Fernando

Nayantha Fernando
Company Secretary

18th February 2021

Notes :

1. A member entitled to participate and vote at the virtual meeting is entitled to appoint a proxy to participate and vote in his/her stead.

2. A proxy need not be a member of the Company. The form of proxy is enclosed herewith.

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 Sixth Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 31st March 2021 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.

	Resolution	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 2020 with the Report of the Auditors thereon.		
2.	**Resolution No. 2** To re-elect Sarath Rangamuwa, 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 Mohan Abeynaike, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.		
4.	**Resolution No. 4** To authorise the Directors to determine the donations for the year 2021.		
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 Twenty One.

....

Signature of Shareholder.

FORM OF PROXY

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, or emailed to csy@pabcbank.com or faxed to +0094112301844 on or before 9.30 a.m. on the 29th March, 202l being at least 48 hours before the time appointed for holding the meeting.

2. In perfecting the form of proxy please ensure that all details are legible and the proxy appointed need not be a shareholder of Pan Asia Banking Corporation PLC.

3. 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.

4. A shareholder appointing a proxy (other than a Director of the Bank) to participate in the meeting should indicate the proxy holder's National Identity Card (NIC) number on the Form of Proxy.

5. Please indicate with 'x' in the space provided how your proxy is to vote on each resolution.

6. Shareholders who are unable to participate through the online meeting are encouraged to duly complete the form of proxy clearly setting out their preference of vote under each matter set out in the Form of Proxy and to appoint one of the Directors of the Bank or any other person to act on their behalf in order that each shareholder's vote may be identified and recorded as if such shareholder were present.

* 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

442,561,629 Ordinary Voting Shares

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

Company Secretary

Nayantha Fernando

Mandatory Board Committees

Board Audit Committee

Mohan Abeynaike	-	Chairman
Sarath Rangamuwa	-	Director
Toyohiko Murakami	-	Director
Nihal Kekulawala	-	Director
Nimal Tillekeratne	-	Director/CEO (By invitation)

Board Integrated Risk Management Committee

Nihal Kekulawala	-	Chairman
Dimuth Prasanna	-	Director
Takashi Igarashi	-	Director
Nimal Tillekeratne	-	Director/CEO

Board Human Resources & Remuneration Committee

Dimuth Prasanna	-	Chairman
Mohan Abeynaike	-	Director
Nihal Kekulawala	-	Director
Nimal Tillekeratne	-	Director/CEO

Board Nomination Committee

Mohan Abeynaike	-	Chairman
Dimuth Prasanna	-	Director
Aravinda Perera	-	Director
Nimal Tillekeratne	-	Director/CEO (By invitation)

Board Related Party Transaction Review Committee

Mohan Abeynaike	-	Chairman
Sarath Rangamuwa	-	Director
Takashi Igarashi	-	Director
Nimal Tillekeratne	-	Director/CEO

Voluntary Board Committees

Board Credit Committee

Dimuth Prasanna	-	Chairman
Sarath Rangamuwa	-	Director
Aravinda Perera	-	Director
Nimal Tillekeratne	-	Director/CEO

Board Strategic Planning Committee

Mohan Abeynaike	-	Chairman
Sarath Rangamuwa	-	Director
Nihal Kekulawala	-	Director
Aravinda Perera	-	Director
Nimal Tillekeratne	-	Director/CEO (By invitation)

Board Recoveries Committee

Dimuth Prasanna	-	Chairman
Sarath Rangamuwa	-	Director
Aravinda Perera	-	Director
Nimal Tillekeratne	-	Director/CEO

Board IT Steering Committee

Aravinda Perera	-	Chairman
Sarath Rangamuwa	-	Director
Mohan Abeynaike	-	Director
Nimal Tillekeratne	-	Director/CEO

Auditors

Ernst & Young
Chartered Accountants
No. 201, De Saram Place,
P. O Box 101,
Colombo 10,
Sri Lanka.

Credit Rating

Fitch Rating ‘BBB-(lka)’ Stable Outlook

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PAN ASIA BANK
The Truly Sri Lankan Bank

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Colombo 03,
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