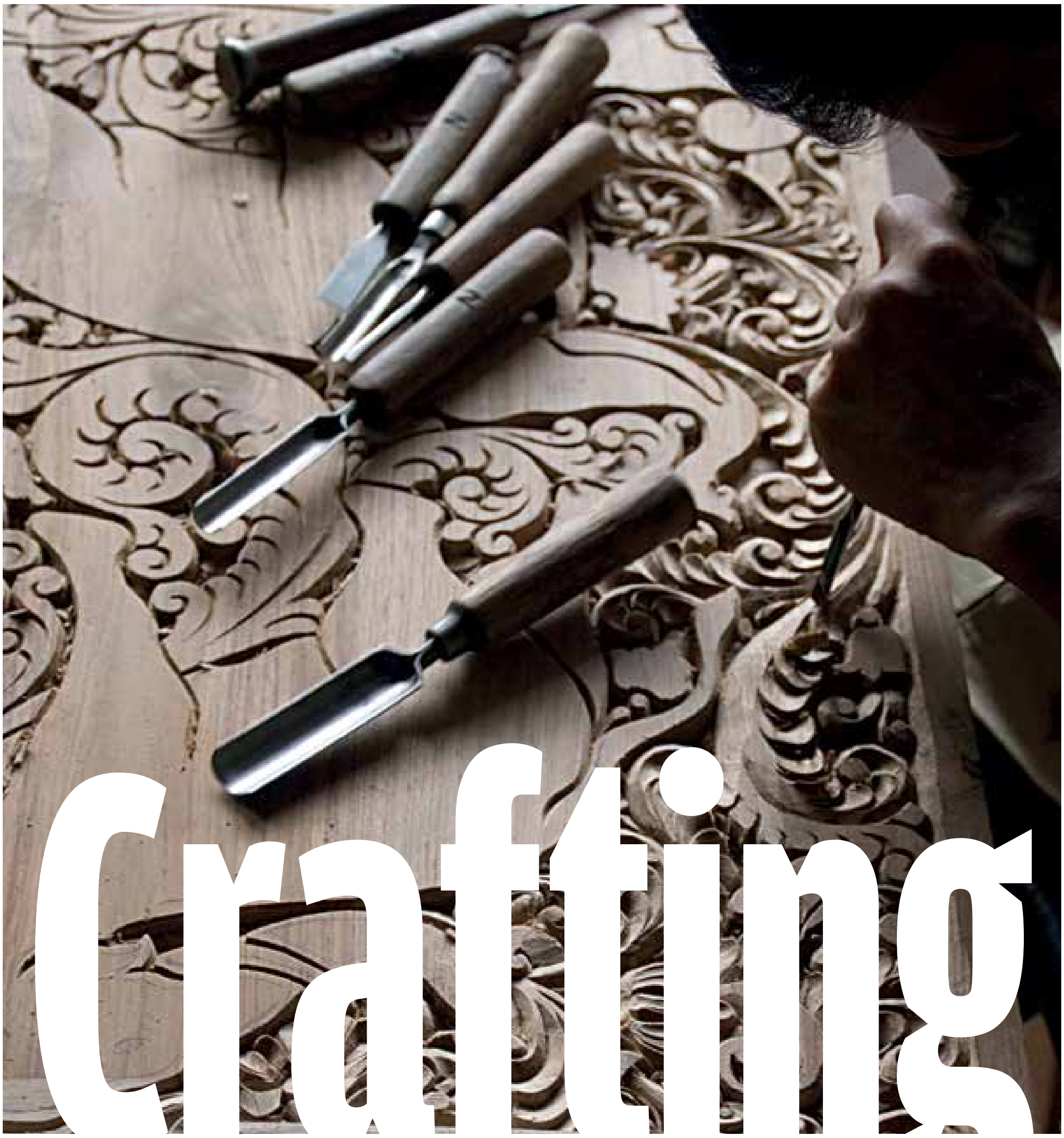

Crafting the journey ahead

PAN ASIA BANK
The Truly Sri Lankan Bank

PAN ASIA BANKING CORPORATION PLC | Annual Report 2022

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

Crafting

the journey ahead

Artisans in Sri Lanka have been perfecting their craft for generations, with attention to detail and unique insights.

The commitment they lend to their craft is akin to the courage we at Pan Asia Bank have stepped forward with, thriving on two decades of corporate craftsmanship. As a truly Sri Lankan bank, we have always stood by our stakeholders, through good times and bad, delivering consistent value.

The next chapter in our journey is poised to be more rewarding, as we progressively navigate every challenge ahead of us with strength and stability. As we build a resilient future, we will continue to persevere and serve to our finest capacity, crafting a vibrant journey for you and our nation.

Pan Asia Bank. The Truly Sri Lankan Bank.

PAN ASIA BANK
The Truly Sri Lankan Bank

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Moulded

to deliver Excellence

As clay is moulded and formed to create terracotta masterpieces, we mould our vessels of excellence, offering the best to serve our stakeholders.

About Pan Asia Bank

Pioneering many firsts in the banking industry over the decades, the Truly Sri Lankan Bank, Pan Asia Bank, has been "Crafting its journey ahead" with precision, steadily consolidating its reputation as a trusted and reliable banking solutions partner for its stakeholders. The Bank has demonstrated courage and resilience amid all the challenges through the pandemic period and the recent economic crisis and still delivered financial stability and support to customers. A robust balance sheet with strong performing assets makes it one of the best performing banks in the nation during the economic crisis.

The Bank's success stems from its professional, empathetic and well-trained team who has imbibed the values of a Truly Sri Lankan Bank to support customers and other stakeholders with the utmost respect and hospitality.

Firmly entrenched as The Truly Sri Lankan Bank, Pan Asia Bank is uplifting many small and medium size enterprises from the grassroots on its journey and empowering entrepreneurs to dream big, whilst also supporting its corporate and retail customers. Along with partnering customers in their journey, the Bank has also carved out a place for itself as the industry leader in green financing for the environmental sustainability of the nation.

In its 27th year, Pan Asia Bank is one of the strongest banks in Sri Lanka – a claim backed strongly by a plethora of local and international awards and accolades bestowed on the Bank in the year 2022. Pan Asia Bank's unique journey as the Truly Sri Lankan Bank is underscored by innovation and good governance which positions it on a stable footing into the future.

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.

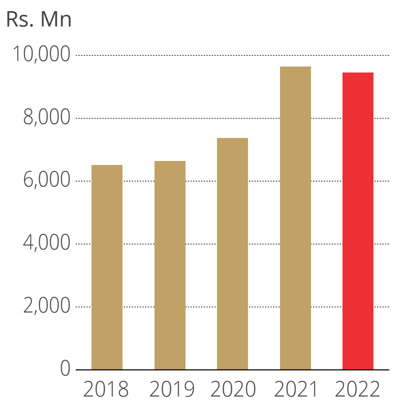
Commitment We are dedicated to the success of our organisation and stakeholders, including customers, employees and ourselves.

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

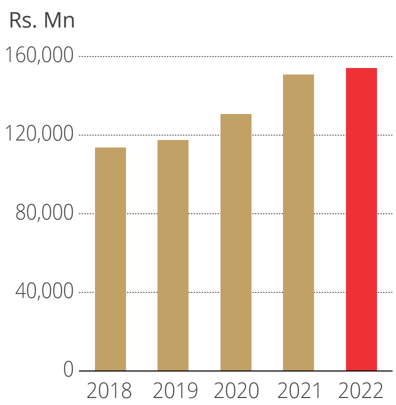
Financial Highlights

	2022	2021	Change %
Financial Performance (Rs. Mn)			
Gross Income	25,813.14	21,103.53	22.32
Net Interest Income	9,455.46	9,641.74	(1.93)
Net Fee and Commission Income	1,718.81	1,782.93	(3.60)
Total Operating Income	8,606.33	11,908.67	(27.73)
Operating Profit Before VAT on Financial Services	1,089.42	4,911.23	(77.82)
Profit Before Tax	649.85	4,033.65	(83.89)
Profit for the Year	2,001.94	3,075.36	(34.90)
Financial Position (Rs. Mn)			
Gross Loans and Advances	154,079.31	150,684.02	2.25
Total Assets	208,049.11	189,511.67	9.78
Due to Depositors	162,533.46	146,433.82	10.99
Shareholders' Funds	20,616.55	18,553.51	11.12
Profitability			
Net Interest Margin (%)	4.70	5.18	(9.27)
Return on Equity (%)	10.58	18.03	(41.32)
Return on Assets - After Tax (%)	1.00	1.65	(39.39)
Cost-to-Income Ratio (%)	38.18	38.85	(1.72)
Investor Information			
Earnings Per Share (Rs.)	4.52	6.95	(34.96)
Net Asset Value Per Share (Rs.)	46.58	41.92	11.12
Market Price Per Share (Rs.)	9.50	15.50	(38.71)
Earnings Yield (%)	47.58	44.84	6.11
Price Earning Ratio (Times)	2.10	2.23	(5.83)
Price to Book Value (Times)	0.20	0.37	(45.95)
Market Capitalisation (Rs. Mn)	4,204.34	6,859.71	(38.71)
Statutory Ratios			
Capital Adequacy			
Common Equity Tier I Capital Ratio (%) (Minimum Requirement - 7%)	14.09	13.82	1.95
Tier I Capital Ratio (%) (Minimum Requirement - 8.5%)	14.09	13.82	1.95
Total Capital Ratio (%) (Minimum Requirement - 12.5%)	16.07	15.97	0.63
Leverage Ratio (%) (Minimum Requirement - 3%)	8.21	8.40	(2.26)
Liquidity			
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)			
Total Bank (%)	21.60	N/A	-
Domestic Banking Unit (%)	N/A	24.18	-
Foreign Currency Banking Unit (%)	N/A	58.42	-
Liquidity Coverage Ratio (Minimum Requirement - 2022 - 90%, 2021 - 100%)			
Rupee (%)	253.11	135.47	86.84
All Currency (%)	226.09	146.83	53.98
Net Stable Funding Ratio (%) - (Minimum Requirement - 2022 - 90%, 2021 - 100%)	144.41	126.71	13.97
Asset Quality			
Stage 3 Loans (Impaired Loans) to Total Loans (%)	3.63	3.04	19.41
Stage 3 Loan Impairment to Stage 3 Loans (Stage 3 Provision Cover) (%)	53.11	51.23	3.67
Total Impairment Provision Cover (%)	6.45	5.52	16.85

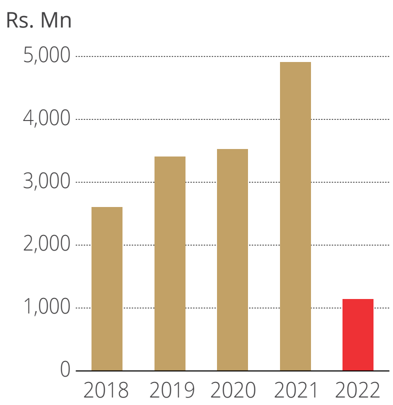
Net Interest Income



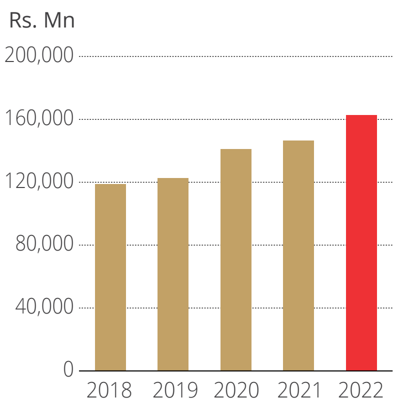
Loans and Advances



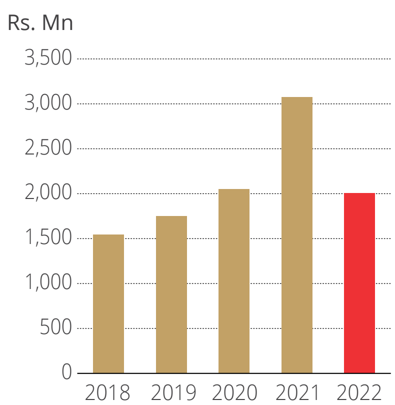
Operating Profit



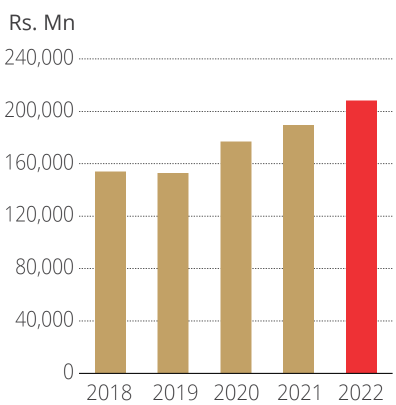
Deposits



Profit for the Year



Total Assets



2022

NET ASSET VALUE PER SHARE

Rs.46.58

Increased by 11.12%

TOTAL CAPITAL RATIO

16.07%

Increased by 0.63%

LIQUIDITY COVERAGE RATIO - ALL CURRENCY

226.09%

Increased by 53.98%

NET STABLE FUNDING RATIO

144.41%

Increased by 13.97%

Accomplishments of the Year

Employee ESG Program of the Year Sri Lanka 2022
Global Banking & Finance Awards

Best Banking Product Sri Lanka 2022 (Pawning)
Global Banking & Finance Awards

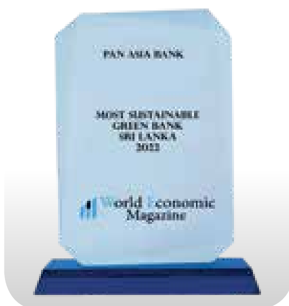
Best Banking CEO of Sri Lanka 2022
Global Banking & Finance Awards

Best Bank in Risk Management Sri Lanka 2022
International Business Magazine Awards

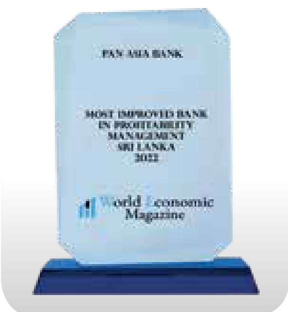
Best Green Bank Sri Lanka 2022
International Business Magazine Awards

Best Green Bank Sri Lanka 2022
World Business Outlook Awards

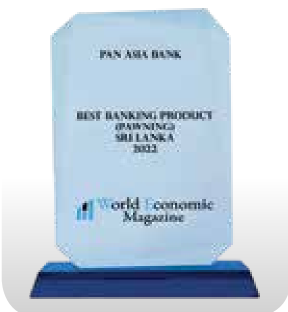
Best Banking Product (Pawning) Sri Lanka 2022
World Business Outlook Awards



Most Sustainable Green Bank Sri Lanka 2022
World Economic Magazine Awards



Best Bank in Risk Management Sri Lanka 2022
World Economic Magazine Awards



Best Banking Product Sri Lanka 2022 (Pawning)
World Economic Magazine Awards

Runner Up Award in Banking Sector and Merit Award for Corporate Governance 2022
National Business Excellence Awards

Sri Lanka's top 40
Ranked amongst Sri Lanka's top 40 corporations by Business Today 2022

Crafted to display Perfection

Our brass artisans showcasing their specialised prowess is akin to how we utilise our skills to offer crafted precision to our valued partners.

Chairman's Message

PROFIT FOR THE YEAR
Rs. 2 Bn

> Pan Asia Bank was able to navigate the challenging year in a prudent manner to further strengthen the confidence of its stakeholders and demonstrate its credentials as the Truly Sri Lankan Bank in the country by supporting its employees, customers and the wider community.

Dear Shareholders,

It gives me pleasure to welcome you to the 28th Annual General Meeting of Pan Asia Banking Corporation PLC. The unprecedented events of the year gone by will be forever entrenched in our collective memory. Amidst the prevailing volatility, the bright spark on the horizon indeed was the resilient performance by Pan Asia Bank, which was underscored by cautious optimism, calculated risk assessment and astute strategies.

I am proud to say that Pan Asia Bank was able to navigate the challenging year in a prudent manner to further strengthen the confidence of its stakeholders and demonstrate its credentials as the Truly Sri Lankan Bank in the country by supporting its employees, customers and the wider community. After the worst of the economic crisis during which the economy sank to new lows, the path to recovery and stability is now clearly visible ahead - and as a nation we need to walk that path with honest resolve and the willingness to make sacrifices.

Macro-economic Backdrop

The Sri Lankan economy witnessed significant turmoil during the year under review, contracting by 7% in the nine months ending September 2022 on a year-on-year basis. The Asian Development Bank (ADB) forecasted the Sri Lankan economy to contract by as much as 9.2% by year-end while the International Monetary Fund (IMF) forecasted an 8.7% contraction in 2022 from 3.3% growth recorded in 2021.

The gradual recovery in economic activity in the first three months of the year under review, which was observed with the abating of the COVID-19 pandemic, reversed from April 2022 onwards, with the deepening of the political upheaval and economic crisis and heightened uncertainties caused by the dearth of foreign exchange liquidity. Frequent power outages, prolonged fuel shortages that hampered supply channels, scarcity of raw materials and the soaring cost of production significantly dampened economic activity across all sectors of the economy. The Government announced a temporary suspension of external debt servicing in April 2022 which led to a 'pre-emptive default', following which Sri Lanka initiated negotiations with the International Monetary Fund (IMF) for an economic adjustment programme, while initiating a debt restructuring process.

Sri Lanka's external sector vulnerabilities worsened in 2022 amidst headwinds on the global and local front, leading to an unprecedented balance of payment crisis, necessitating the introduction of policy measures to curb import expenditure to improve the foreign exchange liquidity required for essential imports.

During 2022, the Central Bank of Sri Lanka (CBSL) increased its policy rates several times, resulting in an increase of 900 basis points. Inflation reached historically high levels owing to supply side disruptions both locally and globally, administrative price adjustments, sharp depreciation of the Sri Lanka Rupee and the pent-up demand on the back of the lagged impact of large monetary accommodation amidst the COVID-19 pandemic.

The significant shortage in liquidity in the domestic foreign exchange market continued to exert pressures on the exchange rate, necessitating a measured adjustment of the exchange rate that was allowed in early March 2022, which was followed by a significant overshooting as induced by unwarranted speculation. Accordingly, the Sri Lanka Rupee depreciated substantially by 77% against USD by end April 2022.

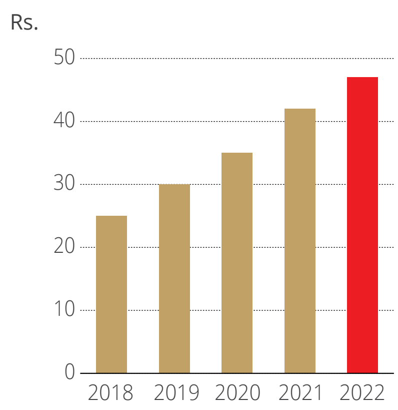
The stability of the financial sector was challenged amidst the crisis conditions that prevailed in the economy in 2022.

Banking Sector Performance

The banking sector maintained its stability despite the prevailing uncertainties in 2022, sparked by solvency, liquidity and profitability. Banking sector credit witnessed a sharp dip due to the economic contraction during the year under review as the effects of rupee depreciation on foreign currency loans reverberated in the sector.

Gross Stage 3 Loans Ratio of banking sector closed at 11.30% in 2022, the double-digit levels pointing to the drop in the quality of credit in the

Net Asset Value per Share



Chairman's Message

banking sector. Furthermore, the sector faced deterioration in the Statutory Liquid Asset Ratio in 2022 compared to the previous year. The exposure to sovereign instruments remains a worry when it comes to sovereign debt restructuring in the banking sector.

Following the Government's decision to suspend sovereign external debt payments in April 2022, key international rating agencies further downgraded sovereign ratings of Sri Lanka. This rendered the banking sector vulnerable when it came to foreign currency operations while raising foreign loans became a challenge against the volatile macroeconomic backdrop.

The profitability of the banking sector declined as a result of increased impairment charges and high interest expenses. The capital adequacy of the sector was also challenged due to lower profitability and higher risk weighted assets.

The Bank's Financial Performance

I am pleased to reveal that despite the various pressures weighing down on us during the year under review, we successfully maintained one of the industry best net Stage 3 (NPL) ratios of 3.63% as against an industry average of 6.50%. This reflects the level of oversight inherent in our operations. This strong net Stage 3 (NPL) ratio can also be directly attributed to improved credit underwriting standards and aggressive collection and recoveries efforts. Pan Asia Bank was one of the first banks to set up a Board Committee for Recoveries to strengthen collection and recoveries and to support customers impacted by the pandemic and economic crisis.

In the 2022 financial year, Pan Asia Bank achieved a Profit after tax of Rs. 2 billion, albeit down by 35% as compared to the previous year due to the increased cost of funding, foreign exchange losses and increased provisions for sovereign bonds and delinquent loans. Nevertheless, the deposit base achieved a growth for the year of 11% with the contribution of time deposits, while total assets growth recorded was 10%, mainly supported by the increased investments in rupee treasury bills.

As for the financial year ahead, we see 2023 as a year of economic recovery with the projected IMF package, tourism revival, easing of the foreign exchange crisis and increased inflow of workers' remittances.

Challenges to Profitability

While the economy in 2023 is expected to contract at a lesser rate than 2022, the combination of all the external pressures negatively impacted the Bank's current year operating profits. The increased funding costs attributable to the increase in key policy rates of 9.5%, followed by heightened rupee Government security yields forced the Bank to offer high rates for deposits which negatively impacted its net interest income during 2022.

The depreciation of the Sri Lankan rupee against major currencies was a result of action taken by CBSL to allow a correction to exchange rates in accordance with the market forces, which resulted in higher provisions for and exchange losses on the foreign currency denominated credit facilities and investments. This in turn had an adverse impact on the operating profit by approximately Rs. 3.6 billion. Further steep rises in commodity prices and increased taxes impacted the overhead expenses of the Bank.

Increased tax expenses due to increased tax rates, broadened tax base of corporate income tax and the newly-introduced Social Security Contribution Levy (SSCL) had a significant adverse effect on the Bank's bottom line during the year 2022.

Returns on Shareholders and Sound Capital Position

The Bank managed to report a Return on Equity of 10.58% amidst the unprecedented macro-economic conditions. The moderate earnings in FY2022 ensured the Bank's Net Asset Value per Share appreciated from Rs. 41.92 to Rs. 46.58 during past 12 months. The Bank's Total Common Equity Tier 1 Capital before Adjustments reached Rs.19.50 billion as at 31st December 2022 to end the year with a Tier 1 Capital Ratio of 14.09% which is much higher than the minimum standards set by the regulator. The Bank's focus remains firmly on elevating the Total Common Equity Tier 1 Capital up to the mandated Rs. 20 billion by the due date and the Bank is confident that the set target could be achieved despite the extraordinary macroeconomic conditions.

Digitalisation Drive

The financial sector has been rapidly and increasingly transforming from the traditional banking practices to a more technology-driven industry during the recent past and the Bank too has been at the forefront of this initiative by accelerating digitalisation while adapting to new technology platforms to sustain a competitive edge. The COVID-19 outbreak accelerated customer demand for digital products and services, and has spurred the rapid development of our own digital strategy to offer customers speed and digital access to the Bank's products and services.

Awards and Accolades

As one of the pioneering banks across various parameters, Pan Asia Bank consistently attracts awards from prestigious local and international institutions which affirm the Bank's pursuit of excellence.

In 2022, Pan Asia Bank was bestowed with a wide plethora of local and international awards. In the international arena, the Bank was awarded the Best Bank in Risk Management by the International Business Magazine. In the local banking industry, Pan Asia Bank was adjudged the Runner up in the Banking sector at the National Business Excellence Awards held in 2022 and placed amongst LMD's Most Respected Entities in Sri Lanka by the leading business magazine. These are but a few snapshots of the many other accolades earned by the Bank during the year.

Challenges Ahead

The financial sector is likely to encounter significant challenges in the face of the current economic environment with the contraction in economic output, sovereign debt restructuring, high interest rate environment, tax revisions and high

exposure of the banking sector to State-owned business enterprises.
The Government has raised the corporate income tax rate from the 24% to 30% to boost revenue in the wake of almost doubling the Value Added Tax last year. As a result, most corporates are expecting to see a decline in profitability going forward.

At present, an increasing trend in Stage 3 loans across the banking industry is observed due to the present adverse macroeconomic circumstances, which is expected to further increase in view of contemporary weak economic conditions despite the concessions granted to borrowers by the industry to confront the challenges. Further hefty revisions introduced to the personal income tax structure by the government effective from 1st January 2023 onwards are expected to dampen the loan repayment ability of individual borrowers further going forward. Meanwhile, some reduction in Stage 3 exposures is expected as now the Banks have recommenced the recovery action on defaulters as the prolonged restrictions imposed by the industry regulator on such action lapsed on 31st December 2022.

By early September 2022, a staff level agreement was reached with the IMF for the economic adjustment programme pertaining to the Extended Fund Facility (EFF), which is expected to support the transition of the economy to a sustainable recovery path in the medium term.

The economy will continue to contract albeit at a slower rate in 2023 and the Bank has taken the necessary measures in this regard. We believe the worst is behind us and that the situation will improve, although we remain prepared to face challenges in different shapes and forms.

Governance

Amidst the volatility in the year under review, Pan Asia Bank remained committed to adopt and implement best banking practices while maintaining its commitment to strengthen the corporate governance structure and processes. The extraordinary changes in the macroeconomic environment required us to spend time and effort in complying with the changing regulations and policy directions. Our foundation of good governance practices coupled with stable financial fundamentals has helped Pan Asia Bank manage regulatory changes during the year under review. All matters pertaining to the policies and procedures of the Bank are adequately deliberated at the Board and the Board committee levels and our discussions and decisions have been undisputed.

During the year under review distinguished directors Mr. Mohan Abeynaike and Mr. Toyohiko Murakami retired from the Board upon completion of their term with the Bank and we thank them for the valuable service they rendered to the Bank. We are also pleased to welcome new director Mr. Hiroyuki Ota to the Board, who was earlier acting as the alternate director to Mr. Murakami.

The entire staff of the Bank joins me in bidding farewell to Nimal Tillekeratne who will retire w.e.f. 31st March 2023 after 6 years at the helm of Pan Asia Bank as MD/CEO. I am pleased to welcome the new CEO designate, Naleen Edirisinghe, presently - the Chief Operating Officer, to lead the institution on a strong growth trajectory.

Focus beyond 2022

At the outset I would like to reassure all stakeholders of Pan Asia Bank that we will sustain our cautious approach moving into the new financial year which is also expected to see a fair share of economic upheaval. Mindful of the possible challenges in the next 12 months, the Bank will remain focused on managing short-term downside risks.

Taking a lesson from the trials faced in the year under review, the Board has adopted a long-term vision for managing the volatility in interest rates, scarcity of foreign exchange, risks associated with the government debt restructuring process, inflationary pressures and other challenges that may undermine the Bank's future growth prospects. Heightened risk cognisance across all three lines of defence and robust engagement with all stakeholders combined with sharp analytics to enable early identification of potential threats would be key to driving a sustainable performance.

Over the year 2022, the Bank has evolved its strategy, refined core values and updated its brand to reflect the progress made over the past 27 years and set out a more ambitious agenda to build a Truly Sri Lankan Bank.

Pan Asia Bank will retain its focus on prudent lending strategies, close monitoring of credit quality, efficient recoveries and expansion of digitalisation to ensure stability.

We have every reason to be proud of our performance through the extremely challenging period, which reflects our ability to surmount odds with resilience. Although challenges will remain, our sense of optimism will see Pan Asia Bank putting its best foot forward in the year ahead.

Acknowledgements

I wish to thank my colleagues on the Board and the Corporate Management for their continued support and cooperation during unprecedented times.

As an institution we are indebted to our shareholders, valued customers, staff and other stakeholders for their continued support. I would also like to express my appreciation to the Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka, Colombo Stock Exchange, Ministry of Finance, Department of Inland Revenue and other regulatory bodies for their support during this time of uncertainty.

We move ahead with determination to make the necessary sacrifices as a responsible corporate citizen to steer the economy safely to stability and look ahead with cautious optimism to better times ahead.

S B Rangamuwa
Chairman

17th February 2023

Managing Director's Review

TOTAL OPERATING INCOME
Rs. 8.61 Bn

"The visionary Board members and experienced Senior Management team of Pan Asia Bank were closely monitoring the gathering storm clouds from as far back as end 2021 itself and were constantly recalibrating strategy to brace for tough times ahead.

Dear Stakeholders,

The year under review witnessed unprecedented social, economic and political upheaval in Sri Lanka, which adversely impacted lives and livelihoods. Amidst this crisis, organisations which had not accurately read the signs and anticipated an economic slowdown were blindsided. The visionary Board members and experienced Senior Management team of Pan Asia Bank were closely monitoring the gathering storm clouds from as far back as end 2021 itself and were constantly recalibrating strategy to brace for tough times ahead.

Economic challenges, insufficient foreign reserves and loss of access to international capital markets led to the country defaulting on external debt servicing for the first time in its history. In addition, unchecked external borrowings, tax cuts that increased the budget deficit, a restriction on the import of chemical fertilizer and the abrupt float of the Sri Lankan rupee were some of the other missteps which caused the economy to implode. Although it seemed to be all doom and gloom through the year under review, Pan Asia Bank weathered the storm with fortitude.

Performance

Although the retail segment performed reasonably during the year, the SME segment faced constraints due to the contraction of economic activities in the market from the second quarter onwards. Resisting the temptation to pursue unrestrained growth, the Bank maintained a cautious approach to grow its lending book, but expects challenges will be felt in 2023 as a result of factors such as the heightened taxes and possible delays in the International Monetary Fund (IMF) bailout package to the Government, which could have an impact on the overall profitability of the Bank.

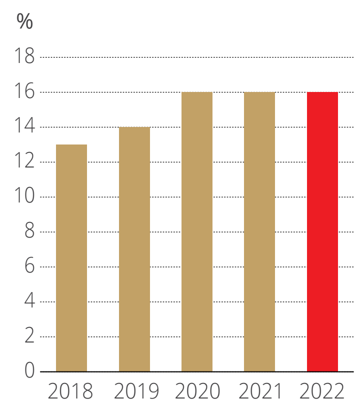
Pan Asia Bank's asset base remains fairly distributed - with more weight on the Retail side rather than high-end SMEs and the Corporates. On the Retail side, fixed income-earners and government sector employees constitute for over one-third of the Bank's loan book, which cushioned the impact of customers being unable to repay loans due to financial hardships during the year. Meanwhile, the Bank's pawning advances showed a remarkable upsurge during the year. The Bank's operating costs were stringently monitored along with the rationalisation of staff numbers for greater optimisation.

Strategy & Execution

Having anticipated a forex crisis and rising interest rates, in advance, propelled the Bank to protect dollar reserves early on in the year and to bring down its exposure to trade finance to ensure sufficient reserves. Lending was paused as the market behaviour became even more uncertain and conditions became volatile and unpredictable.

Adversity tests the mettle of champions and I am pleased to state that Pan Asia Bank emerged stronger and more resilient through this period. The Bank consciously contracted portfolios which are subject to stress while selecting customers carefully based on their past track record of repayments. During the year, Gold Loans and Corporate Lending, mainly targeting plantations and cinnamon exporters, boosted the asset base.

Total Capital Ratio



Managing Director's Review

The Bank also turned its focus inwards, rationalising resources in a way that optimised personnel costs through a lean approach in all areas of the business. In addition, the direction from the Central Bank of Sri Lanka to scale down discretionary spending on branch refurbishments and expansion was adhered to. Unfortunately, the sharp rise in interest rates created untenable competition for a smaller slice of depositors, with banks resorting to rate wars. Pan Asia Bank set its sights higher by differentiating on its service and credentials to maintain lower interest margins for the benefit of the industry, without being drawn into cut-throat competition. The Bank's sound balance sheet is evident in its low stage 3 loan ratio of 3.63% by end 2022. A sizeable provision for bad debts was made which is more than sufficient to cover non-performing assets.

Although the economic situation has eased slightly since the height of the crisis, the newly-imposed increases in corporate tax to 30% will put further pressure on profitability in all sectors and even render Sri Lankan exports uncompetitive. While acknowledging the need to increase Government revenue, it is imperative for the Government to source funds through more sustainable means, including curtailing Government expenditure and borrowings.

Environmental, Social and Governance

Risk and governance frameworks were strengthened further during the year and special emphasis was placed on examining every expenditure item to see how costs could be kept low through the year. Operational measures will be strengthened as needed to run a tight ship.

SHAREHOLDERS' FUNDS
Rs. 20.62 Bn

Sizeable provisions for expected credit losses have been set aside after a comprehensive assessment to ensure there is no impact to the financial stability of the Bank in case of repayment defaults. Considering that the strategy executed this year proved sound and supported the Bank's performance in a challenging year, it will be continued into the year 2023 as well. Selective lending to low risk segments will be the norm. The industry is also expected to feel the impact once the ongoing moratoriums expire as the ability of customer to repay the pandemic loans has been affected due to the economic crisis.

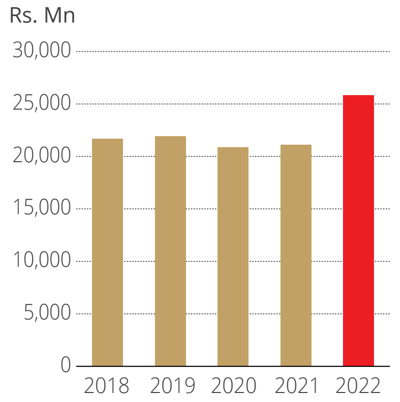
The Bank has underlined a prime goal which is not to pile up bad debt and to exercise more prudence, which is reflected in the Bank's low stage 3 loan ratios. Pan Asia Bank has reported no dollar liquidity issues through the economic crisis which is why the regulator is satisfied with our fundamentals.

People First

As an institution that operates on triple bottom-line principles, the focus on people and planet remains paramount. Our People are our flag bearers. We believe that steadfast relationships go a long way in keeping our customers happy. We also believe that products and technology may not always fulfill the promises we make to our customers, but our people do. That is why we believe that a more competent and a motivated workforce will help us effectively deliver on our brand promise, 'The Truly Sri Lankan Bank'.

We have always believed that our staff is our most valued asset and we strive to make them want to stay with us in the long run. For this purpose, we make every effort to provide

Gross Income



them with competitive remuneration, professional training and development, leadership opportunities, other benefits, staff engagement activities and work-life balance programmes. We carried out staff training throughout the year based on a comprehensive training needs analysis.

The Bank sustained its commitment to support staff through the two years of the pandemic and subsequently through the economic crisis as well, providing help in several ways to ensure a positive frame of mind amongst staff. Salaries and allowances were increased for various grades of the Bank across the board and relief payment was paid to all staff which enabled them to cope with the high inflationary environment to some extent.

Furthermore, ample opportunities are being provided to employees to enhance their technical qualifications to create room to enhance their career prospects. A governance committee for human resource matters is in place to streamline promotions and review performance evaluations based on identified criteria, thus infusing transparency and fairness. Ultimately, the dedication and loyalty demonstrated by the entire Pan Asia

Bank team is what has led us to be one of the most stable banks in one of the most challenging years in the nation's history.

Awards and Accolades

A fitting end to the year under review was the accumulation of the most awards and accolades received by the Bank within 12 months for performance in diverse functions such as green banking, ESG, risk management, product excellence, corporate governance etc.

Some of the awards that Pan Asia Bank won during the year include the Best Banking Product Sri Lanka 2022, Best Bank in Risk Management Sri Lanka 2022, Employee ESG program of the year - 2022 and the Most Sustainable Green Bank Sri Lanka 2022, amongst many more prestigious accolades.

Future Outlook

There is no doubt that the year ahead will be tougher than the one before. As we go into the year 2023 after a resilient performance, with adequate liquidity and capital, our absolute priority is to assist our valued customers and the economy to recover. We have prepared ourselves for a wide range of economic scenarios and built adequate impairment provision buffers accordingly. We remain focused on playing our part to support our customers, the broader economy and our people in challenging macro-economic conditions.

While we are facing a period of uncertainty at the moment, we are positive about medium to long term prospects for the economy and as always remain committed to supporting our customers and the economy. Our optimism stems from the expected IMF bailout package and the support from the bilateral and other creditors. The much-anticipated stabilisation in the macroeconomic environment is expected with the recovery in private sector credit and inflow of foreign investments along with the reforms to the State-Owned Enterprises (SOEs) in 2023.

Pan Asia Bank is committed to value creation through organic growth in the local market. Adequate focus is placed on revenue generation and sustainability of operations and I believe that if this strategy is sustained over the next couple of years it will steer the Bank further up the path to profitability than many of its larger peers. Pan Asia Bank's positioning as 'The Truly Sri Lankan Bank' is now firmly entrenched in the market.

Our ongoing commitment to prudent growth will allow us to maintain an even keel in the midst of a challenging economic context in the months ahead. Maintaining asset quality and financial stability will be key pillars of our progress as in the year under review.

Appreciation

We are proud of the way in which we have navigated the unprecedented challenges during the year and I would like to thank the Chairman and the Board of Directors for their guidance and support. The Senior Management of the Bank and the entire team have been exceptional in upholding our common vision for maintaining financial stability. I would also like to thank the Governor of the Central Bank of Sri Lanka and officials for managing a tough year well.

Nimal Tillekeratne
Managing Director/Chief Executive Officer

17th February 2023

Board of Directors

S B RANGAMUWA
Chairman

Mr. Rangamuwa was appointed as the Chairman in May 2021. He 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 launch 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 Postgraduate Diploma in Finance Administration from the Institute of Chartered Accountants of Sri Lanka and a Certificate in Foundation studies (Sports) from Unitec, New Zealand.

ARAVINDA PERERA
Deputy Chairman

Mr. Aravinda Perera was appointed to the Pan Asia Bank Board in August 2017 and appointed as Deputy Chairman in May, 2021. He counts over 38 years in the banking sector and functioned as the Managing Director of Sampath Bank PLC from 01st 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 Postgraduate 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.

NIHAL KEKULAWALA
Senior 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 Boards 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.

Board of Directors

B D A PERERA
Director

Mr. B D A Perera was appointed to the Board of Pan Asia Bank in April 2021. He is the Executive Director - Asset Management, L B Finance PLC.

Having joined L B Finance in 2004 as General Manager - Asset Management, he was appointed to the L B Finance Board on 01st January 2007. He also serves as an Executive Director of L B Finance PLC, subsidiary in Myanmar - L B Microfinance Myanmar Company Limited and is a Director of Multi Finance PLC.

Mr. Perera is an Associate Member of the Chartered Institute of Management Accountants ACMA, CGMA (UK) and holds a BSc (Business Administration) Special Degree from the University of Sri Jayewardenepura, successfully completed the High Potentials Leadership Program in 2012 at Harvard Business School in Boston, MA, USA. He counts over 22 years of experience in the leasing industry that includes positions at Commercial Leasing Company Limited, Lanka Orix Leasing Company PLC and Merchant Bank in Bangladesh.

SANDRA WALGAMA
Director

Ms. Sandra Walgama was appointed to the Board of Pan Asia Bank in January 2022. She was the former Senior Deputy General Manager - Personal Banking at Commercial Bank. She has over 40 years of banking experience and is specialised in Banking, Finance, Wealth management, Corporate banking and SME/Retail banking.

Ms. Walgama was previously a Director at CBC Tech Solutions Limited. She is an Associate of the Institute of Bankers of Sri Lanka, Associate of the Institute of Administrative Accounting (London), and has a Diploma in Bank Management from the Institute of Bankers of Sri Lanka and Diploma in Wealth Management from the Chartered Institute for Securities and Investment London.

CHETHIYA UMAGILIYA
Director

Mr. Chethiya Umagiliya was appointed to the Board of Pan Asia Bank in January 2022. He is a focused entrepreneur with 17 years experience in the Gem Industry and in the Real Estate business. He has wide experience in various businesses and business management. Currently he is a Director at Uni Dil Packaging Ltd., Uni Dil Packaging Solutions Ltd., Swisstek (Ceylon) PLC, Swisstek Aluminium PLC and The Fortress Resorts PLC.

HIROYUKI OTA

Director

Mr. Hiroyuki Ota was appointed to the Board of Pan Asia Bank in November, 2022. He counts over 30 years of experience in finance business in the areas of commercial banking, trust banking, lease finance and securities business. He holds a Degree in Bachelor of Law from Kyoto University (Japan).

Mr. Ota has been the Managing Director of Bansei Securities Capital (Pvt) Ltd. since 2015, and has been dedicated towards collaborations between Sri Lanka and Japan in Financial Business. He is also acknowledged by the Bansei Group as an advisor who contributed towards strengthening and making the Bansei Group profitable.

Mr. Ota previously worked for the Long Term Credit Bank of Japan (now called as Shinsei Bank 1982-2000), Mitsui Sumitomo Trust & Banking (2000 -2011) and Ricoh Co. Ltd (2011-2014) He is a Director of Bansei Securities Capital (Pvt) Ltd., Bansei & NWS Consultancy (Pvt) Ltd., Bansei Holdings LK (Pvt) Ltd., Bansei Royal Resort Hikkaduwa PLC and Hikkaduwa Hotel Holdings (Pvt) Ltd.

NIMAL TILLEKERATNE

Managing Director/Chief Executive Officer

Mr. Tillekeratne was appointed as Director/Chief Executive Officer in April 2017 and appointed as Managing Director/Chief Executive Officer in March, 2021. He counts over 44 years of service in the banking industry in Sri Lanka and overseas. He is an Associate of the Institute of Bankers, Sri Lanka and a passed finalist of Postgraduate 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.

Mr. Tillekeratne was involved in setting up business processes at Cargills Bank for a short period and also was the Senior Deputy General Manager of Seylan Bank PLC overseeing the Bank's core operations, trade service, remittances business, alternate banking and self service channels 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 widespread, 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 32 years of experience. She was appointed as the Bank's Company Secretary in 1998 and has been serving the Bank for over two decades. She is also a member of the Association of Professional Bankers, Sri Lanka.

Corporate Management

NIMAL TILLEKERATNE
Managing Director/
Chief Executive Officer

NALEEN EDIRISINGHE
Chief Operating Officer

RICHARD DIAS
Deputy General Manager-
Treasury

NAYANTHA FERNANDO
Deputy General Manager/
Company Secretary

UPALI DHARMASIRI
Deputy General Manager-
Recoveries

JEREMY DE ZILVA
Deputy General Manager-
Internal Audit

GERALD WANIGARATNE
Deputy General Manager/
Chief Information Officer

VARUNI EGODAGE
Assistant General Manager-
Legal

HARSHA KURUKULASURIYA
Assistant General Manager-
Operations and Administration

SHIYAN PERERA
Assistant General Manager-
Retail Credit

RAJENDRAN RANGITH
Assistant General Manager/
Chief Risk Officer

SURANGA FERNANDO
Assistant General Manager/
Chief Financial Officer

SAMPATH ALWIS
Assistant General Manager-
Human Resources

NIMAL RATNAYAKE
Assistant General Manager-
Branch Credit

KANCHANA DEVASURENDRA
Assistant General Manager-
IT Systems

Senior Management

UMAHARAN JEGANATHAN
Chief Manager - Consumer Credit

YOHAN EBELL
Chief Manager - Bancassurance and Private Banking

THUSHARI MALALGODA
Chief Manager - Human Resources

HARSHA SAMARANAYAKE
Chief Manager - Corporate Banking

CHARITH LEELARATHNE
Chief Manager - Internal Audit

SIRIMEVAN SENEVIRATHNE
Chief Manager - Marketing

BUDDHIKA PERERA
Chief Manager - Deposit Mobilisation

NILANGA DE SILVA
Chief Manager - Treasury

ANUSHKA WIMALASENA
Chief Manager - Operations

DHARSHANEE KEERTHIRATNE
Chief Manager - Branch Credit

THILANI PUNYAWANSA
Senior Manager II / Chief Compliance Officer

NILAN FERNANDO
Senior Manager II - Branch Credit

KITHSIRI WEERAKOON
Senior Manager II / Area Manager - Colombo South

THILINI RAMANAYAKE
Senior Manager II - System Development and IT Projects

INDIKA LIYANAGE
Senior Manager II - Trade Operations and Financial Institutions

ANURADHA RANAWEERA
Senior Manager II - Recoveries

RENUKA WICKRAMASINGHE
Senior Manager II - Branch

JAGATH ATHUKORALA
Senior Manager II - IT Infrastructure

TRISHANE DE MEL
Senior Manager II / Area Manager - Colombo Inner

THUSHARA SURAWEERA
Senior Manager - Branch

ANURADHA GAMAGE
Senior Manager - Leasing

CHAMATH ATUKORALE
Senior Manager - Treasury Middle Office

ARAVINDA RODRIGO
Senior Manager - Corporate Banking

SUDHILA PERERA
Senior Manager - Branch Credit

PREMANATHAN PRATHABAN
Senior Manager / Area Manager - North & East

PRIMAL VITHANA
Senior Manager / Area Manager - Colombo Outer

DARSHIKA PEIRIS
Senior Manager - Treasury Settlement

SANJAYA SILVA
Senior Manager - Administration and Premises

SITHARA JAYAKODY
Senior Manager - Credit Administration

SANKA THILAKARATHNE
Senior Manager / Area Manager - Central

Senior Management

DUMINDA HETTIARACHCHI
Senior Manager - Branch

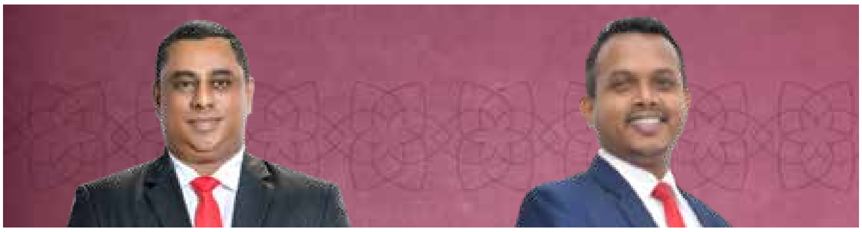
KUGANESWARAN SABAPATHY
Senior Manager - Treasury

DAMITHA ELLANGASINGHE
Senior Manager - Credit Audit

KAMAL BANDARA
Senior Manager - Branch

HAREEN SEMAGE
Senior Manager / Area Manager - Southern

DEVIKA HALWATHURA
Senior Manager - Recoveries



PRASANNA BANDARA
Senior Manager / Area Manager - North Western

VINDYA RANGAJEEWA
Senior Manager - Retail Banking

the art of A Legacy

We diligently serve our stakeholders with the same dexterity and finesse imbued in the intricacy of this painting by our traditional batik artisans.

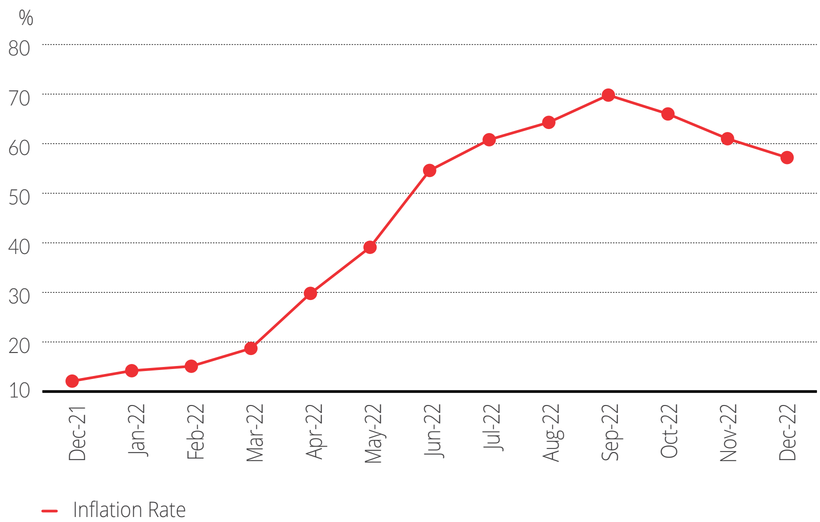
MANAGEMENT DISCUSSION AND ANALYSIS

Macroeconomic Review

The Sri Lankan economy faced heightened uncertainties during year 2022. Although the economy was on the path of recovery subsequent to easing of the COVID-19 pandemic, its progress was muted by the culmination of the twin deficits in the Government budget and external current account. Hence, the economy contracted by 4.8% (y-o-y) during the first half of 2022, driven by the spill over effects of the unprecedented economic crisis felt across several sectors, with fuel shortages, power outages, widespread scarcity of key imported raw materials and other essentials, and the soaring cost of production, among other factors. With the GDP contraction recorded during the first half of 2022 and the envisaged contractionary path for the second half of the year, the Central Bank of Sri Lanka (CBSL) anticipated the Sri Lankan economy to contract by around 8% during 2022. The Asian Development Bank (ADB) predicted Sri Lanka's GDP to contract by 9.2% in 2022 and by 4.2% in year 2023, while the International Monetary Fund (IMF) had forecasted an 8.7% contraction in 2022 from 3.3% growth recorded in 2021.

The steady rise in inflation to historically high levels since the beginning of the year witnessed a decline in purchasing power. Moreover, the expansionary fiscal policy with the low tax regime introduced in late 2019 fuelled inflation not only by directly enhancing aggregate demand, but also by necessitating monetary financing to bridge the expanding budget deficit amidst the lack of access to international capital markets following the rating downgrades. The monetary tightening efforts, which commenced in August 2021, accelerated in 2022 to avoid possible de-anchoring of inflationary expectations and to arrest lingering demand driven pressures. The latter half of 2022 showed signs of stability, helped by the myriad multifaceted policy interventions undertaken to steer the economy to transition towards a path of stable and sustainable growth over the medium term.

Inflation: Y-o-Y % Change in CCPI



Source : Central Bank of Sri Lanka

Quarterly Real GDP Growth

Source : Central Bank of Sri Lanka

During the year, servicing of external debt became increasingly challenging, given the lack of access to international markets due to consecutive sovereign downgrades and the bunching of large foreign debt service payments amidst lacklustre foreign exchange inflows. In response, the Government announced a standstill on external debt servicing on account of bilateral and commercial loans for an interim period commencing from April 2022.

Despite the subduing of import demand and the announcement of the debt standstill, modest inflows to the current and financial accounts were insufficient to tame pressures on the exchange rate. Tourism earnings recorded some turnaround, while workers' remittances remained subdued despite recording some revival in recent months. During the year 2022, the Sri Lankan Rupee depreciated against the US Dollar by 80%. The sparse liquidity conditions in the domestic foreign exchange market and adverse market perceptions caused a sharper than expected depreciation of the exchange rate. With a view to curtailing excessive and speculative volatilities in the intra-day exchange rate, the Central Bank commenced providing guidance to the market by announcing a middle rate and a variation margin of the interbank weighted average spot exchange rate from 13 May 2022. As such the weighted average spot exchange rate in the interbank market remained around Rs. 363 per US Dollar in the latter part of the year.

The engagement with the International Monetary Fund (IMF) on a macroeconomic adjustment programme progressed in the latter half of the year. The discussion with bond holders is taking place to agree on the debt restructuring, whilst negotiations with China and India as the main bilateral lenders is vital to finalise the process and move ahead with the IMF programme. The economy is expected to transition onto the path to recovery from the latter part of 2023. Nevertheless, this will hinge on policymakers' unwavering commitment to implementing policy reforms in a timely, holistic, and efficacious manner while ensuring that such commitment remains unhampered by political and election cycles. This is imperative to prevent any oscillations of national policies in the crucial period ahead in order to strengthen the economy's resilience to external shocks, thereby ensuring its unwavering progress over the medium term.

Performance of the Banking Sector

The banking sector faced renowned challenges amid the extraordinary macroeconomic conditions prevailed throughout the year. Excessive impairment provision couple with stressed net interest margins hindered the sector earnings than envisaged. Meanwhile Fitch Ratings has downgraded the National Long-Term Ratings of 10 Sri Lankan banks following the recent sovereign downgrade. Despite continuous stress faced by the sector in terms of liquidity, the banking sector continued to operate with acceptable levels of capital and impairment coverage ratios during year 2022. However, the financial sector is likely to encounter significant challenges in the face of the current economic environment with the contraction in economic output, sovereign debt restructuring, high interest rate environment, tax revisions and high exposure of the banking sector to State Owned Enterprises.

Capital

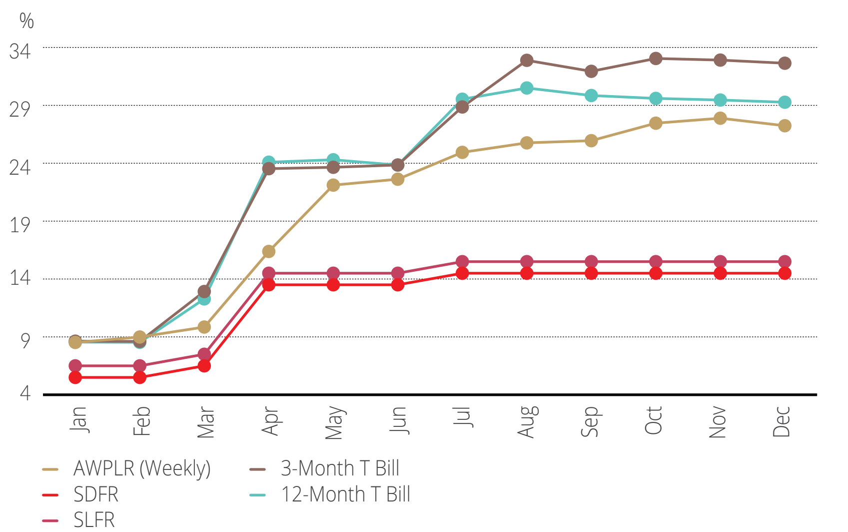
Capital position of banks will be further strained resulting from continuing macroeconomic challenges. Even though, with the retention of profits, a positive impact on capital ratios could be envisaged, due to the impact from the significant policy rate hike, economic contractions and concerns over the possible impact from the sovereign debt restructuring, banks will be faced with escalating challenges in maintaining their capital ratios above regulatory minimum levels and a substantial deterioration in capital buffers are anticipated. Apart from external debts, any local debt restructuring is likely to dampen the banking sector earnings during the period ahead.

Despite adverse macroeconomic conditions, the banking sector as a whole maintained the Capital Adequacy Ratio above the minimum statutory requirements during 2022. As at end December 2022, the banking sector operated with a Tier 1 ratio of 12.3% and a Total Capital Ratio of 15.3%, which were well above the Basel III requirements. However, going forward, deteriorating credit quality arising from severe economic contraction, less disposable income of public, possible hair-cut on local government debts and declining revenues of SMEs could result in a capital erosion of the banking sector.

Interest Rates

The market interest rates increased amidst the tightening of monetary policy in 2022. The continued excessive upward adjustment in market interest rates has resulted in persistent anomalies in the interest rate structure. During year 2022, CBSL increased its policy rates by 950 bps to arrest the anomalies in the market rates while restoring economic and price stability over the medium term. In response to Central Bank tighten monetary policy, rates adjusted upwards while yields on Government securities also recorded a sharp increase during 2022. Going forward, the anomaly in market interest rates is expected to be rectified, benefiting mainly from the notable reduction in the overall money market liquidity deficit and the anchoring of inflation expectations in line with the envisaged disinflation path. Yields on Government securities are showing some signs of easing recently and are expected to moderate further.

Behaviour of Interest Rates



Source : Central Bank of Sri Lanka

Asset Growth

The banking sector sustained its expansion amidst significant level of stress in terms of liquidity, capital and asset quality. The growth in assets of the banking sector improved during year 2022 compared to the corresponding period of the last year mainly due to the reiteration of foreign currency denominated assets in rupee terms with the depreciation of the currency. Total assets of the banking sector expanded by Rs. 2.6 trillion to Rs. 19.4 trillion, recording a growth of 15.4 %, compared to an expansion of Rs. 2.2 trillion which was a growth of 15.1 % recorded in the corresponding period of 2021.

Loans and Advances

Tightening monetary policy led to a deceleration in year-on-year growth of loans and advances to 5.7 % in year 2022, compared to 14.5 % growth recorded in 2021. Total loans and advances increased by Rs. 0.6 trillion to reach Rs. 11.3 trillion in 2022, compared to an increase of Rs. 1.4 trillion growth reported in the same period of 2021, mainly due to the impact of the exchange rate depreciation on foreign currency loans.

Meanwhile, most banks tend to leverage excess liquidity in Government securities to enjoy higher returns in the market.

Deposits

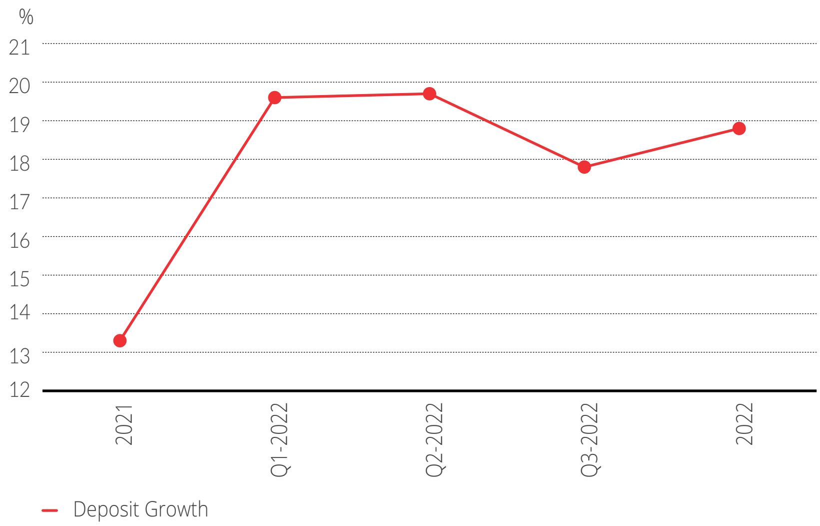
The banking sector expansion was largely funded by deposits. The deposit base of the banking sector expanded by Rs. 2.4 trillion in year 2022 and stood at Rs. 15.3 trillion recording a 18.8 % growth, mainly due to growth of rupee deposits, compared to an increase of Rs. 1.5 trillion and a corresponding 13.3 % growth recorded in the same period of 2021.

Shifting to high cost deposits from low cost CASA observed in the sector while banks are struggling to maintain CASA standards in the backdrop of high interest rates regime. Industry CASA ratio declined to 31.5% in Dec 2022 from 38% recorded in 2021.

Profitability

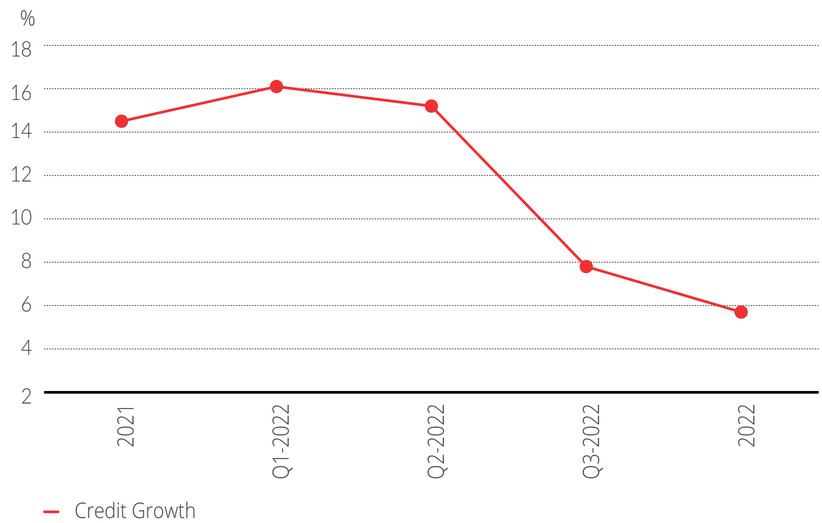
Profits of the banking sector deteriorated during the year under consideration. Profit before tax of the banking sector was Rs. 192 billion, which was a decrease of Rs. 35 billion compared to the profits of Rs. 228 billion reported during the corresponding period of 2021. Despite the increase in net interest income by Rs. 208 billion and non-interest income by Rs. 129 billion, profits decreased during the year mainly due to the increased impairment charges by Rs. 299 billion. Meanwhile, the Return of Assets (ROA) and Return on Equity (ROE) of the sector decreased to 1.0 % and 10.5 % respectively, as at end 2022 from 1.4 % and 13.4%, respectively, as at end 2021.

Banking Industry - Deposit Growth (Y-o-Y)



Source : Central Bank of Sri Lanka

Banking Industry - Credit Growth (Y-o-Y)



Source : Central Bank of Sri Lanka

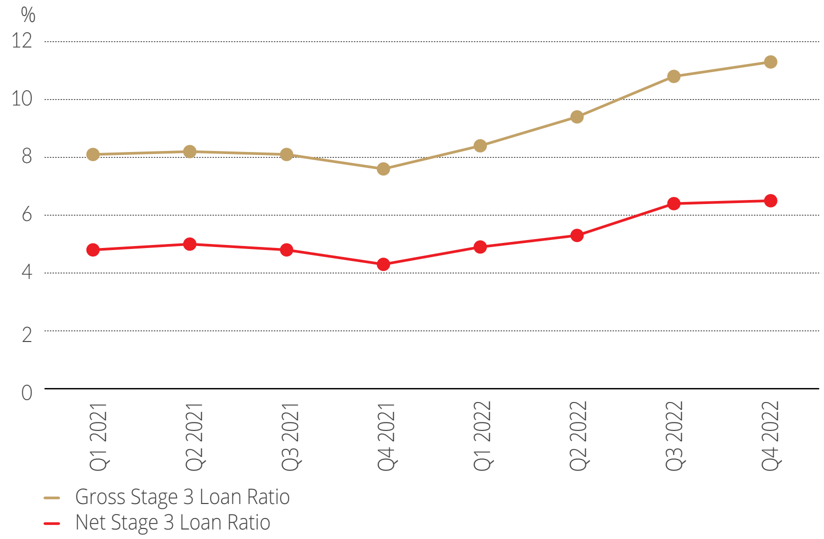
Credit Quality

The operating environment for banks remains challenging while financial profiles could come under stress during the period ahead. The challenging conditions could persist until Sri Lanka's sovereign-debt situation stabilises. Fitch forecasts Sri Lankan banks' financial profile vulnerability will be the highest in the Asia Pacific region during the period ahead.

The increasing trend in Stage 2 and Stage 3 remains a concern in credit risk management of the banking sector. All banks credit costs increased significantly during the year 2022 amid the deteriorating credit quality with excessive impairment provisions have been set aside for possible losses on international sovereign debt investments. This trend is expected to continue to some extent during the period ahead given the challenging macro-economic conditions, expiry of moratorium reliefs and tax hikes.

Apart from deteriorated credit quality, banks assigned significant impairment charge for FCY denominated stage 2 and stage 3 credit facilities and dollar bond investments due to portfolio surge created by rupee devaluation against main foreign currencies.

Assets Quality - Banking Industry



Source : Central Bank of Sri Lanka

Financial Review

Overview

Pan Asia Banking Corporation PLC reflected resilience amidst a multitude of adversities emerging from challenging macro-economic conditions as it reported its financial performance for the year 2022, which showed prudent portfolio management and caution in dealing with a possible fallout on its asset quality from sharp increases in interest rates.

The Bank recorded Post-Tax Profit of Rs. 2 billion, recording a decline of 35% over the previous year as it pursued a cautious growth strategy amidst an extraordinary, uncertain and volatile environment. These deteriorating and unprecedented economic conditions necessitated careful balancing of stakeholder concerns and risks.

For the year ended 31st December 2022, the Bank reported an Operating Profit before VAT on Financial Services of Rs. 1,089 million, which was weighed down by higher provisions for expected credit losses and exchange losses on foreign currency denominated financial instruments of the Government of Sri Lanka and loans and advances. The Bank increased its provision buffers for expected credit losses during the year under review sensibly, through introducing further changes to its impairment models, taking into consideration the increased level of risks and uncertainties due to the turbulent economic conditions, including additional provisions on the Bank's investments in foreign currency denominated financial instruments of the Government of Sri Lanka in view of sovereign rating downgrades and the impact of the external debt standstill.

The Bank increased impairment provision buffers on its investments in Sri Lanka International Sovereign Bonds (SLISBs) due to the increased level of credit risk as a result of the prevailing external public debt service standstill of the Government of Sri Lanka and the possible adverse outcome of the on-going comprehensive debt restructuring programme. As a result of the additional impairment provisions made owing to the elevated risks in the macro-economic environment, including steep depreciation of LKR against major foreign currencies, the corresponding provision buffers recorded a sharp increase during the year, causing the Bank to report a reduced Net Operating Income in 2022.

The impact of higher impairment charges and various concessions already granted to borrowers resulted in dampening earnings up to a certain extent, while the payment deferrals enabled to borrowers affected by the pandemic and unprecedented macro-economic conditions, extended the pressure on impairment charges up to a certain level. However, the unique and diversified business model of the Bank has continued to exhibit strength in overcoming multiple challenges arising from various operational factors.

The Bank's Post-Tax Profit also gained positively through recognition of deferred tax assets at a higher tax rate and re-assessment of deferred tax assets in accordance with the recent Government gazette on impairment provisioning.

Stemming from the reduced post-tax profit impacted by the extraordinary macro-economic conditions, the Earnings Per Share for the year 2022 fell to Rs. 4.52 from Rs. 6.95 compared to the previous financial year, while the two key profitability indicators of the Bank, namely, Return on Equity and Return on Assets, also diminished compared to the previous year.

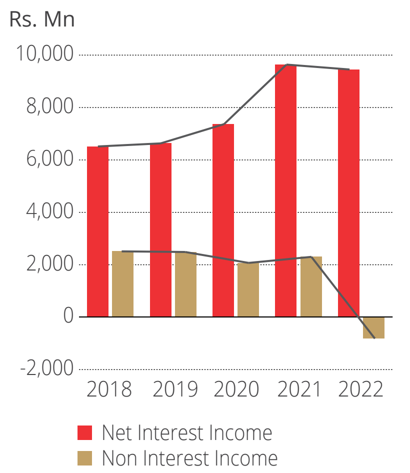
The financial performance of the Bank for the year 2022 is elaborated further as follows:

Net Interest Income

The interest income for the year rose by 42% due to the increase in market lending rates and re-pricing effect of facilities in response to the market conditions resulted from the policy decisions taken by the Central Bank of Sri Lanka to increase the policy rates and remove the interest rate caps on certain lending products. Further, the significant volume growths in both Pawning Advances and Term Loans also led to increased interest income. Meanwhile, the interest income from investments in Rupee Treasury Bills of the Government of Sri Lanka also rose due to increases in both rates as well as growth in volumes.

The interest expense for the year has also gone up by 88% mainly due to a steep increase in deposit rates and re-pricing effect of deposits as response to market conditions resulting from the recent monetary policy decisions taken by the Central Bank of Sri Lanka to increase policy rates. Consequently, the Net Interest Income dropped by 2% to Rs. 9.46 billion during the year under review from Rs. 9.64 billion in the corresponding year due to higher growth in interest expense over growth in interest income. Furthermore, with interest expenses outpacing interest income, the Bank's Net Interest Margin for the reporting year fell by 48 bps to 4.70% from 5.18% in previous year.

Net Interest Income Vs Non Interest Income



Non-Interest Income

The Bank's Net Fee and Commission Income declined by 4% mainly due to a substantial reduction in fee income generated from loans and advances due to weak demand for credit which resulted from the high interest rate regime that prevailed during a significant part of the year 2022. However, there was a significant increase in fee income generated from trade finance activities and remittances due to increase in volumes and rates which nullified the effect of the fee income drop from loans and advances to a great extent. Trade related services was a strong contender, contributing 35% towards overall fee and commission income for the current financial year and recording a growth of 141% over the previous financial year.

The Net Gains from Trading for the year increased by 21% compared to the previous year mainly resulting from high premiums in Forex SWAP agreements due to unconventional developments in the SWAP market which was heavily discounted last year. Meanwhile, the trading gains from Rupee denominated securities of the Government of Sri Lanka also increased in the year 2022.

In contrast, the Bank reported a loss in Other Operating Income/(Losses) during the year 2022 mainly due to the adverse impact of the currency depreciation on impairment charges on foreign currency denominated financial assets under the Other Operating Income, where corresponding gains from the value appreciation of such financial assets were also recognised. Other than that, there was an increase in foreign exchange gains due to gains from asset and liability revaluation as a result of significant depreciation of the Sri Lankan Rupee against major foreign currencies during the year 2022.

Credit Quality

The Bank successfully maintained one of the industry best Net Stage 3 (NPL) Ratios of 3.63% as against an industry average of 6.50% despite the various pressures during the year under review. This reflects the level of oversight inherent in the Bank's operations. This strong Net Stage 3 (NPL) Ratio can also be directly attributed to improved credit underwriting standards, aggressive collection and recoveries efforts of the management and the prudential provisioning policies of the Bank.

Meanwhile, an improvement in Bank's Stage 1 loan concentration was witnessed despite the turbulent macro-economic conditions in 2022 as the Bank continuously focused on managing the quality of its loan book by containing adverse movements to lower stages amidst the weakened economic landscape.

The Bank's Stage 3 Impairment Provision Coverage Ratio improved by 188 bps to reach 53.11% in 2022 from 51.23% in 2021 due to the prudent provisioning policies followed by the Bank. Furthermore, the ratio of the Total Impairment Provisions to Total Loans and Advances at the end of 2022 improved to 6.45% from 5.52%, in last year.

Impairment Charges

The Bank recognised a total impairment charge of Rs. 2,861 million in 2022, the majority of which is provisioning made on SLISBs. Further, industry-wide credit deterioration together with the impact of the model adjustments and management overlays also caused higher provisions during 2022.

Following the announcement made by the Government of Sri Lanka on 12th April 2022 stating the intention to restructure its external public debt subsequent to the downgrade of Sri Lanka's sovereign rating by international credit rating agencies and taking into consideration of the heightened level of credit risks associated with the sovereign, the Bank transferred its investment in SLISBs of the Government of Sri Lanka from Stage 1 to Stage 2 and made a substantial impairment charge of Rs. 1,998.22 million on top of the exchange losses on the same instrument recognised under the Other Operating Income/(Losses) of Rs. 2,090.76 million. The Bank held a total provision buffer of Rs. 4,741.60 million on account of its SLISB investments as at 31st December 2022.

Although Sri Lanka Development Bonds (SLDBs), which are denominated in USD, are not part of the external debt announced restructuring process, an alternative settlement process has been introduced by the Government since the external debt restructuring announcement in April 2022. The Bank managed to bring down its provisions held on SLDBs as it has recovered all investments that matured during the year 2022, either in the form of cash or Rupee Treasury Bonds of the Government of Sri Lanka. The Bank realised SLDBs amounting to USD 12 million during the year 2022 and another USD 11 million between the year-end and the date of the audit report. The Bank is confident that the balance USD 4 million, which falls due in May 2023, would be realised in the form of Rupee Treasury Bonds.

The increase in loan impairment charges was caused by the increase in provisions on collectively assessed portfolio in line with the growth in the loan book and additional impairment provisions made by the management as overlays in response to elevated risks caused by the challenging macro-economic conditions existing both globally and locally and other stresses. The individually significant customers were also carefully evaluated and appropriate provisions were made considering the severity of the impact on each customer. The Bank re-assessed the risk profiles of its customers in order to determine whether they should be moved to Life-Time Expected Credit Losses (Stage 2) from the 12 Months' Expected Credit Losses (Stage 1). As a result, the Bank classified all credit facilities enjoying payment holidays for a prolonged period to the lower stages for ECL calculation purposes.

The Bank increased its model based collective impairment provisions for loans and advances and other financial assets further during the year by reviewing the macro-economic variables used for the computation of Economic Factor Adjustment (EFA) in line with the latest macro-economic conditions. Further, the Bank increased the weightage assigned for the worst case (down-side) scenario during the year to reflect the heightened risks associated with unprecedented macro-economic conditions and the calculation of expected credit losses. In addition, the Bank classified the exposures of customers identified as operating in risk elevated industries under lower stages as appropriate. As a result of all of the above adjustments, the Bank's Stage 2 Provision Cover as at the end of 2022 improved to 10.06% from 8.06% reported in 2021.

Operational Efficiency

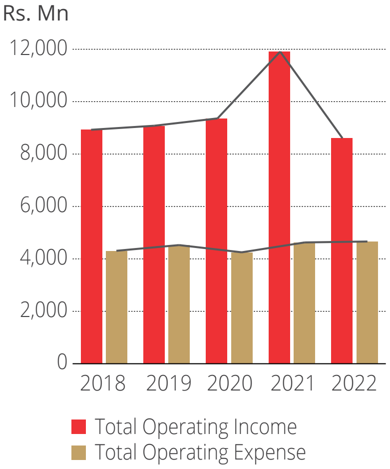
The Bank strived for earnings maximisation through portfolio re-alignment and cost management despite sector vulnerabilities that prevailed since the previous financial year. The Bank's exchange loss adjusted Cost-to-Income Ratio improved to 38.18% during the year 2022 due to the measures taken to contain the increase in overhead costs.

The cost savings from the staff rationalisation activities and reduced allocation for staff bonuses contributed to a 15% reduction in Personnel Expenses in 2022 compared to the previous year, which in turn was reflected in a marginal increase of 1% in Total Operating Expenses during the year under review.

Financial Review

The increase in Total Operating Expenses during the year was mainly driven by the increase in Other Operating Expenses of 18% as a result of rising prices of commodities due to the impact of the currency depreciation, fuel price and tax hikes, etc.

Total Operating Income Vs Total Operating Expenses

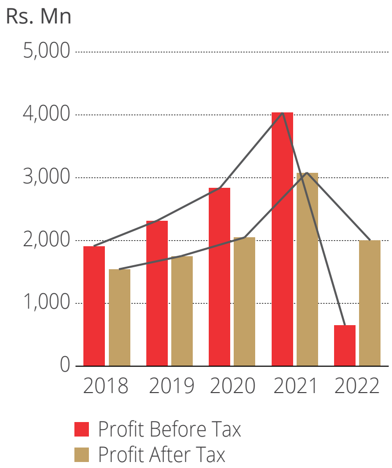


Taxation

The expenses for Value Added Tax on Financial Services declined in 2022 due to the drop in taxable value addition as a result of low operating profits and reduced staff emoluments despite the increase in statutory tax rate for VAT on Financial Services to 18% in 2022 from 15% in 2021. Meanwhile, the Social Security Contribution Levy (SSCL) of 2.5% that was introduced commencing from 1st October 2022 also impacted the Bank's profits to some extent.

The Post-Tax Profit gained significantly due to reversal of deferred tax expense as a result of re-assessment of temporary differences in accordance with the Government Gazette Notification No. 2303/05 issued under the Inland Revenue Act No. 24 of 2017 dated 25th October 2022, and application of the newly enacted tax rate of 30% for computation deferred tax asset as at 31st December 2022. The Bank reported an unusual negative income tax expense and negative effective tax rate due to the aforementioned reasons.

Pre-Tax Profit Vs Post-Tax Profit



Financial Position

Despite the challenges faced by the banking sector during the year 2022 induced by the pandemic and subsequent extraordinary macro-economic conditions, the Bank's Total Assets increased by Rs. 18.54 billion and recorded a growth of 9.78%. The total asset growth predominantly stemmed from the growth in Bank's investments in Sri Lankan Government Rupee securities and the moderate growth in customer loans and advances, as the Bank has continuously followed a cautious approach in lending to borrowers since the COVID-19 pandemic.

Composition of Assets

The unprecedented macro-economic conditions prevailing during a significant part of the year curtailed the growth of banks during 2022. Nevertheless, the Bank managed to grow its Gross Loan Book to Rs. 154.08 billion with a growth rate of 2.25% in contrast to the previous year's credit growth of 15.24%. The current year's credit growth was predominantly achieved through contributions of Gold Backed Lending, Overdrafts and Swabhimana Personal Loans despite the contractions in other credit portfolios.

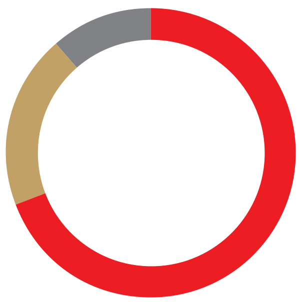
During the year under review, the Bank did not lend vigorously to sectors that exhibited high stress as a measure of the Bank's prudential lending decision.

Meanwhile, the Bank extended further payment deferrals for some customers in the tourism and other sectors who were affected by the unprecedented negative macro-economic conditions. As at 31st December 2022, approximately 2.5% of the Bank's gross loans and advances book was enjoying moratorium reliefs under the Central Bank of Sri Lanka and Bank induced schemes.

The Bank shifted exposures in high-risk segments to ones with fairly low level of default risk strategically during the year, 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 Stage 3 Loan Ratios at a manageable level despite the pressure induced by the macro-economic conditions by bringing cash flows of customers to a standstill.

The Bank's concentration on the SME sector reduced further to 25.13% in 2022, allowing opportunities to address some of the longstanding structural weaknesses and to redesign strategies to build market share. Due to the aforesaid prudential strategic move, the Bank, as opposed to extending unsecured loans, curtailed the increase in loan related credit costs to 20.68% during the year amidst the severe economic crisis. Total impairment provisions held on loans and advances book amounting to Rs. 154.08 billion rose to Rs. 9.93 billion by end of 2022.

Composition of Total Assets



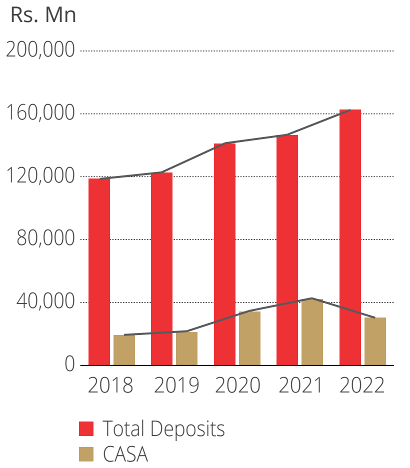
Loans and Advances	69.29%
Investments	19.39%
Non Income Earning Assets	11.32%

Funding Structure

The Total Deposit Base of the Bank grew by 11% to Rs. 162.53 billion in 2022, attributable to both concerted deposit mobilisation and the inflationary effects of the LKR depreciation against key foreign currencies. These enhancements ensured that the Bank maintained a strong liquidity position throughout the year with Statutory Liquid Assets Ratio (SLAR) and Liquidity Coverage Ratio (LCR) being well above regulatory minimum requirements.

The sharp deterioration in Current and Savings account balances witnessed an outflow of Rs. 11.94 billion during the year 2022 as the depositors shifted their low yielding funds to high cost time deposits searching for better returns. As a consequence, the Bank's CASA ratio slipped by 10% during last 12 months to 18.65%. Meanwhile, the Bank's Time Deposits experienced an extraordinary growth of close to Rs. 30 billion during the year as it was successful in attracting new funds into the Bank during the challenging times.

Total Deposits Vs CASA



Shareholders' Funds

The Bank's Total Shareholders' Funds increased by 11% in 2022 with a growth of over Rs. 2 billion compared to the previous year. The strong growth in shareholders' funds in 2022 was solely driven by the internally generated funds. Meanwhile, the Bank's Net Asset Value Per Share as at 31st December 2022 stood at Rs. 46.58, having increased from the previous year-end figure of Rs. 41.92 as per the financial results achieved amid uncertainties. The Bank did not distribute any cash dividends to shareholders during 2022 in view of the need to build adequate capital buffers to support future growth and to meet forthcoming increased minimum capital requirement.

The Bank reported a reasonable Return on Equity Ratio of 10.58% and a Post-Tax Return on Assets of 1.00% despite absorbing substantial credit losses due to the unprecedented macro-economic conditions during the year under review.

Regulatory Capital

Despite the heightened challenges in the operating environment, the Bank maintained healthy capital ratios during the year under review owing to moderate lending growth coupled with the notable profit achieved during the year 2022. The Common Equity Tier 1 (CET 1) Capital before Adjustments of the Bank as at 31st December 2022 amounted to Rs. 19.5 billion, whilst the Total Regulatory Capital stood at Rs. 19.82 billion. The Bank requires nearly Rs. 500 million further to elevate its capital up to Rs. 20 billion by end of 31st December 2023. The Bank is confident that balance capital could be met through the internally generated funds of the Bank during the year 2023.

The Bank's Common Equity Tier 1 (CET 1) Capital Ratio and Tier 1 Capital Ratio at the end of 2022 improved to 14.09% from 13.82% in the year before, mainly supported by the strong internal capital generation couple with moderate growth in lending book. The Bank followed a cautious approach towards lending due to prevailing economic downturn in the country. Both CET 1 and Tier 1 Capital Ratios as at 31st December 2022 stood well above the regulatory minimum requirements of 7.00% and 8.50% respectively. The Bank's Total Capital Ratio at the end of 2022 stood at 16.07%, having improved from 15.97% in the previous year against the minimum requirement of 12.50%. Meanwhile, the Bank's Leverage Ratio slightly decelerated to 8.21% in 2022 from 8.40% reported in year 2021 owing to asset growth driven by the investments in Rupee Government securities.

The Bank placed emphasis on maintaining a sound and resilient capital position to support its risk absorption capacity and business expansions while meeting regulatory capital requirements being a credit rating sensitive factor which demonstrates the Bank's capitalised level to tap internal and external funding sources.

Liquidity

Despite the external and internal liquidity crunch prevailing in the market, the Bank was able to navigate existing liquidity constraints due to proactive measures adopted to improve the liquidity level of the Bank. Liquidity Coverage Ratios at the end of 2022 stood at 253.11% and 226.09% for Rupee and All Currency respectively at the end of December 2022, both well above the statutory minimum requirement of 90% as at 31st December 2022. The Bank's Net Stable Funding Ratio as at the end of year 2022 stood at 144.41% compared to the statutory minimum requirement of 90% as at 31st December 2022.

Meanwhile, the Bank's Statutory Liquid Assets Ratio at the Total Bank level stood at 21.60% at the end of 2022, largely supported by accelerated funding growth during the year 2022. The Central Bank of Sri Lanka has started to measure liquidity on a consolidated basis commencing from 1st December 2022 instead of the previous requirement to maintain liquidity at individual unit levels. As at the end of 2021, the Bank maintained SLAR of 24.18% and 58.42% at the Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) level respectively.

Future Outlook

Global Economic Outlook

The global economy is showing signs of positive recovery after being severely hit by the COVID-19 pandemic. However, global growth is projected to slow to its third-weakest pace in nearly three decades, overshadowed only by the 2009 and 2020 global recessions. IMF forecasts global economic growth to slow from 3.4% in 2022 to 2.9% in 2023, while rebounding to 3.1% in 2024. Slower growth prospects for the year 2023 will be overshadowed only by the global recession caused by the pandemic and the global financial crisis. The world economy is expected to navigate through multiple challenges reflecting synchronous policy tightening aimed at containing very high inflation, worsening financial conditions, and continued disruptions from Russia's invasion of Ukraine.

The United States, the Euro region and China are all undergoing a period of pronounced weakness, and the resulting spillovers are exacerbating other headwinds faced by emerging markets and developing economies. China's recent reopening has paved the way for a faster-than-expected recovery. Global inflation is expected to fall to 6.6% in 2023 and 4.3% in 2024, still above pre-pandemic levels. Strong policy support, coupled with inflation containing measures, is supposed to help reverse the slowdown in long-term growth exacerbated by the overlapping shocks of the pandemic in emerging markets.

Asia Pacific Region

The Asia-Pacific region will be a bright spot in the global economy in 2023. Domestic resilience and solid growth in mainland China, albeit off a weak base, will keep regional growth at a healthy level. Strong consumption in the more domestically led economies of India, Indonesia and the Philippines will also lift the average. Soft global demand is likely to deplete growth in export-driven economies such as South Korea and Taiwan. GDP growth levels in Asia-Pacific, excluding China, are forecasted to decelerate in 2023 to 3.9% from 4.8% in 2022.

However, Asia-Pacific will be vulnerable to foreign exchange stress in 2023. High US interest rates and significant current account deficits in some countries will create vulnerability. Policymakers have managed currency strains so far, but the possibility of a currency crunch and capital flight may yet rattle one or more emerging markets in 2023.

The Sri Lankan Economy

The Sri Lankan economy experienced unprecedented challenges since the Easter Sunday attacks. The spillover effects of the pandemic exacerbated challenges during the past couple of years resulting weak economic performance. The unstable political situation and fiscal, external and financial sector imbalances posed significant uncertainty for Sri Lanka's economy. The economy contracted by 4.8% year on year in the first half of 2022 due to large contractions in the agriculture and industry sectors, while services also contracted modestly. Both the exchange rate and domestic inflation reached record high levels, and a standstill on external debt servicing on account of bilateral and commercial loans was declared by the Government in April 2022 after being continuously downgraded by international rating agencies. The Asian Development Bank (ADB) forecasts Sri Lankan GDP to contract by 9.2% in 2022 and by 4.2% in year 2023. IMF forecasted an 8.7% contraction in 2022 from 3.3% growth recorded in 2021.

The Sri Lankan Government reached a staff-level agreement with the International Monetary Fund (IMF) for a USD 2.9 billion loan, a key step for the country to unlock more funding and restructure its debt. All eyes are on the development of IMF programme to materialise sooner than later. The Ministry of Finance and the Central Bank of Sri Lanka (CBSL) along with the Treasury appointed financial and legal advisors to carry out the negotiation process. The discussion with bond holders is taking place to agree on the debt restructuring, whilst the negotiation with China and India being the main bilateral lenders is vital to finalise the process to proceed with the IMF programme. India has given the required debt assurance while the Exim Bank of China, the bilateral lender responsible for much of the loans given to Sri Lanka, has offered Sri Lanka a two-year moratorium on its debt and said it would support the country's efforts to secure a USD 2.9 billion loan from the IMF.

Sri Lanka still needs to fulfill certain prior conditions to obtain IMF Board approval such as cutting down excessive money printing, increase government revenue, enforce stable free market exchange rate policies and strengthen protective investment policy. As such, fiscal and monetary policies are mostly centered around the IMF programme, with preserving exchange reserves an imperative aspect among other components. The receipt of the IMF rescue funding of USD 2.9 billion will a key factor to determine the recovery path of the economy during year 2023.

CBSL forecasts the Sri Lankan economy to make a gradual recovery during the year ahead supported by the expected improvements in domestic supply conditions, underpinned by the timely implementation of corrective policy measures, anticipated improvements in foreign exchange flows and the resultant enhancement in business and investor sentiment to reinforce the expected recovery in the period ahead.

During year 2022, CBSL adopted a tight monetary policy stance with the view of pivoting inflation towards the desired disinflationary path by anchoring inflation expectations while averting a situation of persistently high inflation. Early signs of a gradual easing of excessive market interest rates have been observed recently in response to improvements in domestic money market liquidity and overall sentiments in the domestic markets. These developments are expected to pave the way for an easing of excessive market interest rates in the period ahead. The regulator envisages inflation coming down to single digit levels by the year-end, helping bring rates down. CBSL is now operating an exchange rate peg at 360/370 to the US dollar, helping externally anchor the monetary system.

As per the official provincial data, general Government debt continues to rise. The increase has been driven mainly by the rising share of local-currency debt in total debt. The domestic debt accounted for around 53% of total Government debt at end-July 2022. The share of foreign debts increased vastly due to impact of depreciation of the USD/LKR exchange rate. According to Fitch Ratings, such total Government debt is estimated to rise up to 115%-120% level by end of 2022 of GDP, up from 99.5% of GDP in 2021.

Banking Sector Performance

During year 2022, the sector experienced deterioration in credit quality and decline in profits along with shrinking loan books. Already enacted tax adjustments coupled with prevailing high cost of living could further impede the disposable earning and repayment capacities of households and also impact the top lines of corporates, resulting in further deterioration in credit quality during the period ahead.

Presently, Sri Lankan banks' access to foreign-currency funding is constrained by the sovereign default. Any local-currency debt restructuring would elevate funding and liquidity stress, given the significance of local-currency funding.

Private sector credit growth which was impeded during 2022 is likely to pick up in the period ahead, underpinned by improved economic activities coupled with easing of excessive market interest rates.

New taxes imposed and amendments made to the existing laws during the year 2022 are expected to have a significant adverse impact on the internal capital generation going forward. The corporate income tax rate hike from 24% to 30%, increase in VAT on Financial Services rate from 15% to 18% and the newly-imposed Social Security Contribution Levy (SSCL) is expected to create a sizeable negative impact on the sector's bottom line during the period ahead. Further, the Government has abolished a number of tax exemptions and concessions availed through amendments and gazette rigorous deduction criteria for stage 1 and stage 2 loan losses.

CBSL continued with the drafting of a new Banking Act with the view of further strengthening and streamlining the provisions of the existing Banking Act. Moreover, the new Banking (Special Provisions) Act is in the process of being drafted for the purpose of defining the resolution authority of the Central Bank of Sri Lanka.

Business Review

In the year 2022, the banking sector had to contend with challenges arising from higher interest rates, depleted foreign reserves and a deteriorating economic and political situation, forcing many banks to resort to fire-fighting mode.

Against this volatile backdrop, Pan Asia Bank reflected resilience and reported a compelling financial performance for the year under review across most of its products and services through judicious portfolio management and prudence in managing asset quality.

Lending

Pan Asia Bank's branch network managed to bring Loan growth to Rs. 5 Bn while safeguarding asset quality

Deposits

Despite challenges faced, all units succeeded in enhancing Deposits substantially

Treasury

Required inflows of foreign exchange volumes were maintained to meet expectations of loyal export and import clients

Customer Service

As a customer-centric Bank, Pan Asia Bank provided compassionate services to customers impacted by the economic crisis

Marketing Strategy

The 'Truly Sri Lankan Bank' brand journey was strengthened by engaging with Sri Lankans to win their hearts and minds

Information Technology

In its digitisation journey, the Bank launched a digital banking solution and an automated loan origination system

Retail Banking

- Sammana & Ranaviru
- Pawning and Ran Loans
- Leasing
- Swabhimana Personal Loan Product
- Credit Cards

SMEs

Corporate Banking

- Trade Finance

Overview of Pan Asia Bank

Pan Asia Bank ended the 2022 financial year with a stable performance despite the severe economic crisis facing the country. The unfavourable macroeconomic challenges placed the entire banking and financial services industry under severe stress. Nevertheless, visionary management oversight ensured the Bank sustained a sound asset base and performed strongly against all parameters, while ensuring the well-being of its employees and valued customers.

The Total Assets base recorded 9.78% growth to reach Rs. 208.05 billion by 31st December 2022 as against Rs. 189.51 billion as at 31st December 2021. The cautious lending approach adopted by the Bank resulted in a marginal growth of 2.25% in its lending books due to the strategy to safeguard the quality of assets and reduce risk from non-performing assets in accordance with the prevailing risk appetite.

The Bank's steady performance was achieved through stringent cost management and a strong performance by the Corporate and Pawning segments. Despite the overall volatility in the economy, Pan Asia Bank continued to support SMEs with debt moratoriums, extensions and restructure of existing facilities to improve cash flows to ensure the smooth operation of business activities.

Overall, Pan Asia Bank managed to protect its foreign exchange reserves at a healthy level, which enabled it to support the import of essential goods, edible commodities, raw material and medicines for the sustainability of the economy and the local community, whilst strengthening its brand identity and recognition as a Truly Sri Lankan Bank.

Lending

Overall performance of the lending book commenced on a positive note until 31st March 2022, when most of forecasted budgets were met, including lending book growth and SME growth of Rs. 4 billion in the first quarter. However, with the sharp rise in interest rates, depleted foreign reserves and deteriorating economic and political situation, banks moved in to cautious mode for next few months to find solutions for the unexpected market and economic behaviour. Pan Asia Bank's lending focus changed considerably from April onwards due to the negative external landscape and deliberate management actions to address unfolding market events.

Overall branch performance was reasonable considering the adverse events that were rapidly unfolding. The branch network managed to achieve Rs. 16 billion in deposit growth while Loan growth amounted to Rs. 5 billion. The major contribution for credit growth in 2022 came from retail segment, specially Pawning and Swabhimana Personal loans. Every branch is measured based on established KPIs - such as average total deposit portfolio growth, average performing advances growth, curtailment of stage 3 advances, collections, profit before impairment charges and profit after impairment charges.

Retail Banking

The retail banking operations experienced a slowdown during the year due to the unfavourable economic conditions. Although pandemic restrictions eased in 2022, the fuel crisis made it difficult for customers to visit branches and thus the Bank remained focused on on-boarding customers onto its digital banking and online banking platforms. Supported by its excellent customer service team, the Bank fulfilled customer needs to the fullest extent, although it remained cautious about extending consumption loans unless they were asset-backed.

Sammana & Ranaviru

The Sammana product is a specialised banking services package tailor-made to fulfill the needs of the Central Bank of Sri Lanka and Government pensioners. Under this package, the 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 giving them financial support. Another purpose of this product is to uplift the living standards of pensioners.

The Sammana loan scheme enables a pensioner to divert pensions 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 considered a liability by the society and overlooked by the financial sector, Pan Asia Bank came forward to offer the Sammana loan scheme, especially for economically viable purposes.

Pawning & Ran Loans

Pawning has been the driver of growth in the year under review, achieving a growth by as much as Rs. 9.5 billion by year-end, with the total portfolio amounting to Rs.22 billion, making it the highest-ever pawning portfolio in the history of the Bank.

Considering the potential in this business segment, the Bank was keen to offer competitive advance amounts to capture a greater share of pawning advances with the view of achieving portfolio growth. Pawning was a useful product to add value to the economy as well, because most of loans are used for agricultural purposes, which helps the economy. The emotional 'Aththama' themed mass media pawning campaign which was conducted through the year reflected the Bank's strong Sri Lankan values as it invites people needing instant cash to take advantage of Pan Asia Bank's safe and reliable pawning product.

Swabhimana

Swabhimana has grown in popularity as it is the only such pioneering personal loan product aimed to benefit government, semi-Government and also private sector employees in the country. Another purpose this product achieves is to uplift the living standards of customers by offering them an opportunity to create additional sources of income.

The Swabhimana loan scheme enables borrowers to obtain a loan of up to Rs. 6 million for a maximum tenure of 12 years. This product continued to perform well during the year under review with a growth of over 18%.

The Swabhimana Savings accounts has successfully built up a fairly sizeable low-cost funding pool within the Bank. A more stringent approach to select borrowers was adopted by requiring remittance of salaries to ensure loan payment and remittance of two guarantor salaries to minimise the risk of default.

The product is expected to perform outstandingly to achieve the allocated target with a satisfactory interest rate. Meanwhile, other products such as credit/debit cards, fixed deposits, internet banking and minor savings were cross-sold to the Swabhimana customer base to boost deposits.

Leasing

The restrictions on vehicle imports continued in 2022, thereby leading to a contraction in the leasing portfolio. In particular, an unusual price hike was observed due to import restrictions in early 2022 that declined towards the year-end, which saw vehicles being out-priced in the market, with low demand.

The sharp rise in interest rates led to higher monthly rentals, thereby further deterring new leasing customers and leading to a decline in demand for the leasing product, further exacerbated by the fuel crisis. Banks and finance companies were also impacted by the high interest rates as they were unable to re-price their leasing portfolio. Thereby, the banking industry concentration on leasing was reduced during the year 2022.

Credit Cards

As a result of the high pressure macroeconomic conditions, purchasing power declined, with customers becoming mindful of their spending patterns and instead concentrated mostly on purchasing essentials. In addition, due to the increase in overall interest rates, the credit card interest rate too increased from 18% to 36%.

A large number of Bank funded and non funded merchant promotions were carried out for the customers during the year. This demonstrated the trust our merchant partners place on the Bank's card base. Seasonal promotions were conducted at selected popular merchant locations, which saw a surge in credit card usage during the period.

Card acquisition drives for professionals continued on selective basis to maintain the quality of assets. A 3D Secure module, an online transaction security platform, was introduced during the period, helping the card business to boost card usage by increasing customer confidence in online transactions.

A joint initiative with Mastercard was conducted by the Bank to enhance service quality standards, offer value additions to customers and up skill staff. As a result of the economic crisis, the Bank took an additionally cautious approach in card acquisitions. However, it is committed on efforts to improve service quality, strengthen existing processes and staff skills, while continuing to provide value additions to customers.

SME

The Bank currently holds a portfolio of Rs. 38 billion in its SME lending book. Despite the prudent approach, the SME unit managed to achieve growth of Rs. 4 billion during the 1st quarter of the year 2022. Further growth was hampered due to the sharply rising interest rates which practically tripled during the period under consideration. As a result, the growth was subdued during remaining period of the year. Nevertheless, the Bank was content with its existing SME clients who were locked in with sound collaterals, continuing to provide them working capital and secure asset backed loans. By end of 2022, the Bank had commenced a fresh SME lending drive with small ticket value of Rs. 30 million and is receiving a slew of proposals from potential clients.

Pan Asia Bank is one of the few local banks to work with several international agencies to raise funding in foreign currency. The Asia Development Bank extended funding to the Bank for green financing on account of the Bank's credentials of being at the forefront of green financing in the country.

Despite its cautious lending approach, the Bank spared no effort in connecting with customers and strengthening the relationship by holding SME webinars to motivate and guide clients to get back on their feet. Virtual workshops for more than 250 customers were held to offer advice on turning around businesses after the economic crisis, which attracted a good response from the Bank's SME customer base. Considering that the export sector was showing strong growth, the SME lending team targeted on-boarding the exporter community.

The focus on SMEs will be accelerated in the next financial year as the SMEs constitute more than 75% of the overall business enterprises, generate 45% of all employment opportunities and contribute 52% GDP of the country. The Bank expects to allocate a bigger budget for the SME sector considering its branches are strategically located in key towns where almost 100% of local businesses are SMEs.

The Bank is also monitoring the revival of the tourism industry, considering its existing lending exposure to SME and Corporate customers in the industry. Pan Asia Bank has already extended debt moratorium to tourism industry based on their needs - and with tourism taking off, the Bank is looking forward to supporting its longstanding SME and Corporate customers in the tourism industry.

Corporate Banking

In contrast with the previous financial year, conditions for growing corporate banking were not conducive. Growth forecast and performance for corporate banking was affected due to the rupee liquidity crunch and forex shortage which affected importers. As a result, the balance sheet did not expand. Since the market lending rates went up to 30% levels, the Bank adopted a cautious approach to maintain a healthy asset portfolio. Nevertheless, astute portfolio management and sound asset quality were maintained and focus was sustained on timely recoveries and analysing customers' cash flows. By understanding customers' business operations, the Bank was able to offer more customised solutions.

There was a heightened focus on certain sectors that were doing well, namely, plantations and exports, while a substantial base of cinnamon exporters too were on-boarded during the year. The Bank was able to earn substantial commissions and healthy yields on advances. Maintaining a high yield on advances helped ensure healthy interest margins despite the banking industry facing Net Interest Margin (NIM) challenges. Overall, corporate NIMs were impressive and so was the yield.

Money market accounts were also opened in 2022. Collection drives and business account recoveries in the Bank's corporate banking have been successful. Additional relationship managers were assigned to manage corporate accounts while training programmes to enhance skill levels continued.

The Bank remains self-assertive about prospects for its corporate banking segment. As greater liquidity is infused into the market, the corporate sector is expected to perform well. The Bank will continue to focus on new industries mentioned in the latest budget proposals such as agriculture, IT and renewable energy sectors which are being facilitated by the Government. Conditions are expected to become more favourable as the Bank betters its books and maintains a sound quality asset base.

Trade Finance

In keeping with the Government's ban on non-essential imports due to the forex shortage, the trade finance business would have remained constrained through the year, however Pan Asia Bank's trade finance income was higher in the year under review as the Bank was able to charge a higher fee due to its ability to supply US Dollars. The fee income on trade products increased by 50% against previous year, therefore the market against the share of export business increased as it received substantial export proceeds during the latter part of the year under review. Pan Asia Bank assisted its customers despite the dollar dearth in the country, especially importers of essential goods, medicine and medical equipment and other necessities.

Deposit Mobilisation

The year under review proved challenging for deposit mobilisation as the economic crisis, in particular, high inflation and rising interest rates, impacted customers. Despite the challenges faced due to the liquidity crunch, an exemplary effort by all units succeeded in enhancing the book substantially in contrast to the previous year. As a result, deposits from in Rs. 146 billion in 2021 rose to in Rs. 163 billion marking 10.99% expansion in the deposit base. Since customers desired more options for deposits, Pan Asia Bank catered to them with the right products by making changes in its product portfolio.

In yet another shift, a below-the-line Marcom strategy was adopted to canvas deposits, with other means to reach customers such as town storming and personal selling to have a deeper impact. Considering the circumstances, this approach was fruitful as a strong momentum was achieved in attracting deposits and new customer acquisitions. Training and knowledge enhancement programmes were sustained through the year for a better results-oriented journey.

Meanwhile, cost of funds rose sharply during the year due to high interest rates, but the Bank managed to sustain its margins. The CASA ratio came down as customers were more focused on high-end deposits while CASA reflects low interest bearing products. As a result, fixed deposits saw an increase of 27% over the previous year.

Treasury

Pan Asia Bank's Treasury Unit is one of the main contributors to the Bank's total operating income, sustaining reasonable interest rates to attract deposits. It plays a vital role in managing the Bank's Market and Liquidity Risk aspects.

The fluid political situation and heightened fiscal, external and financial sector imbalances posed significant uncertainty for Sri Lanka's economic activities during 2022. The economy contracted by 4.8% year-on-year in the first half of 2022 and expectations are for the real GDP to contract by 9.9% by end 2022 and a further 4.2% in 2023. Sri Lanka's economy was already showing signs of weakness before the COVID-19 pandemic. Sustained fiscal disparities driven primarily by low revenue collections combined with tax cuts in 2019 contributed to high fiscal deficits, large gross financing needs and a rapid growth in unsustainable debt.

Sri Lanka lost access to international financial markets in 2020 after credit rating downgrades. Official reserves dropped from USD7.6 billion in 2019 to less than USD 400 million (excluding a currency swap equivalent to USD1.5 billion with China) in June 2022. Net foreign assets in the banking system also fell to USD 5.9 billion in June 2022. This severe forex liquidity constraint has been felt across the economy, particularly from the second quarter of 2022, with shortages of fuel, medicines, cooking gas, and inputs needed for economic activity. Amid depleted reserves, Sri Lanka announced an external debt service suspension in April 2022 and later appointed legal and financial advisors to support debt restructuring.

Market conditions were volatile throughout 2022 due to conditions which curtailed economic growth, resulting in sharp depreciation of the rupee and a widening trade deficit. This, in turn, created shortages of required foreign exchange to meet import demands. In response, the rupee depreciated against the USD to Rs. 363 levels within a short span, resulting in most of the imported food escalating in price significantly.

The depreciation together with the scarcity of foreign exchange experienced during most part of the year posed a challenging backdrop, but the Treasury team utilised all available tools at its disposal to generate the required inflows of foreign exchange volumes to meet the expectations of its loyal export and import clients.

During the years 2021 and 2022, the Bank accorded much importance to maintain sustainable levels of funding and liquidity by sourcing long term funding lines from reputable Europe-based Development Financial Institutions (DFIs) despite the challenging times that prevailed in the country and the world. Through these initiatives, the Bank has managed to maintain surplus USD cash flows to date, despite a sharp drop in the foreign currency reserves of the country coupled with huge shortage of USD liquidity in the inter-bank market.

The Treasury Unit monitors and manages its funding and liquidity ratios on a daily basis to ensure adequate funding is available to maintain liquidity at the desired levels to facilitate honouring customer deposit maturities/withdrawals and other cash commitments efficiently under both normal as well as challenging operating conditions.

The growth outlook is subject to high uncertainty and will depend on the progress in ongoing fiscal consolidation, debt restructuring, and growth enhancing structural reforms. Despite a tightened monetary policy stance adopted by the monetary board, inflation will likely stay elevated for some time, due to high Government borrowings going forward.

Customer Service

Over the years, industry-best customer service has been the key differentiator for Pan Asia Bank. During the year under review and through the pandemic period, the Bank's service levels were consistently maintained through Customer Relationship Management (CRM), surveys and feedback. Having benchmarked itself against the best of the best, the Bank was able to record vast improvement in customer experience despite the challenging situation during the year.

An independent survey was commissioned to rate the perception of Pan Asia Bank's customer service in contrast with other banks - and the feedback was extremely positive. The proactive steps taken by the Bank to enhance its call centre services and to train staff to operate strictly within the laid down parameters helped to maintain standardisation. The CRM team has addressed every aspect of customer service with a focused lens and improved any element that was deemed to be not up to the high expected levels set out by the Management.

During 2022, the call centre had to handle some of the highest call volumes and in order to cope with the increase, employees voluntarily worked after hours from home to clear the backlog. As a result, the call centre provided 24/7 service to customers and routinely called back missed calls or dropped calls to ensure every customer need was attended to.

The Bank continued to provide special customer care for its senior citizen base. Customers were able to activate online banking without visiting branches, supported by adequate security measures.

Yet another responsibility of the call centre staff is to maintain the momentum of the Bank's digital journey and encourage customers to adopt digital platforms offered by the Bank to enjoy greater speed and ease of access. The branch teams too received training in the digital-first approach with customers, with adoption growing month on month. Continuous advertising and communication on social media and digital channels further helped to drive business and on-board customers onto the Bank's online banking platform.

The year under review was marked by uncertainty – making it the third year of economic hardship, which puts immense pressure on the management of human capital and the capacity to sustain desired customer service levels. Nevertheless, as a customer-centric Bank, Pan Asia Bank is empathetic to the livelihood challenges facing the customers and was able to provide compassionate and customised services to customers impacted by the economic crisis. Although the months ahead will be challenging until such a time that the economic situation improves, the Bank's CRM team remains committed to infusing further value into the Bank's offerings.

Marketing

Firmly entrenched as the 'Truly Sri Lankan Bank', Pan Asia Bank continued its brand journey during the year under review by leveraging its brand identity and distinctive brand positioning by engaging with Sri Lankans to win their hearts and minds. Many of the social and economic challenges carried over into the period under review and the new set of challenges were mitigated to a large extent due to this strategic marketing approach to signal the Bank's sustained commitment to its valued customer base and to the nation's well-being, while capitalising on new opportunities.

A key focus area during the year was building the required presence among key market segments, strengthening the relatively new brand positioning and supporting business-critical product lines such as deposit mobilisation, pawning, inward remittance, corporate banking etc. Aligned to this strategy, a slew of marketing campaigns were launched to enhance the existing product propositions in terms of the core offering and communications to widen their appeal to a broader range of customers with diverse financial requirements. This strategy enabled the brand to connect with customers and non-customers in a deeper way while demonstrating how the Bank lives and breathes its purpose as the Truly Sri Lankan Bank.

Pan Asia Bank was at the forefront of being part of national and culturally important festivals, events and key milestones to build the brand position further. By engaging with the wider community in an impactful manner, the brand was able to connect with multiple segments of society with a common message of being proudly Sri Lankan. The Bank's sustainability mindedness is woven into its brand architecture and this was abundantly reflected through marketing, brand functionalities and CSR activities.

Despite the challenges during the year, several high impact CSR projects came to fruition. The Bank took leadership in supporting the Thissa Vidyalaya in Anuradhapura District to enhance its infrastructure further. The century-old school required improvements across many of its facilities. Pan Asia Bank renovated the library and even donated books to upgrade the library facility for students. The Bank's staff from around the country donated many books as per the requirements of the school.

Apart from having a social impact, the Bank continues to engage in environmental sustainability initiatives. Strengthening its contribution to greening the nation, the Bank initiated a 'Green Sri Lanka' project by planting 100 trees on the occasion of Thissa Vidyalaya's 100-year centenary celebrations.

Reflecting its environmental responsibility and its digitalisation journey, the Bank successfully reduced paper consumption during the year through greater electronic communication. These conscious efforts included the digital-first communication policy resulted in sending e-statements to customers, thereby eliminating paper-based statements and communications.

During the year under review, the Bank was bestowed with numerous local and international accolades and awards, including:

- Runner-up Award (Banking Sector) and the Merit Award (Corporate Governance Category) at the annual National Business Excellence Awards (NBEA) organised by the National Chamber of Commerce of Sri Lanka
- Anointed as one of the 'Most Respected Business Entities in the country', by LMD.
- Ranked amongst Sri Lanka's top 40 corporations by Business Today
- Many other local and international awards relating to best products, risk management, governance framework, etc.
- Ranked amongst Sri Lanka's Top 15 most awarded organisations by LMD.

These impressive accolades and awards are a testament of Pan Asia Bank's pursuit of excellence. The Bank stands tall, securely positioned as the 'Truly Sri Lankan Bank', reflecting its dynamic journey thus far, while forging ahead to fulfil its ambitious plans for the future in service of the nation.

Information Technology (IT)

Amidst the challenges that abounded in the year under review, Pan Asia Bank steadily embarked on its digitisation journey with a digital banking solution and an automated loan origination system which are expected to infuse efficiency and enhance productivity for the benefit of customers. The automated loan origination software will streamline the loan process for customers. These solutions will become operational in 2023/24.

Meanwhile, branch staff continued to on-board customers onto digital banking, which is reflected in a marked growth in both retail banking and business internet banking customer bases.

The Bank's IT Department successfully upgraded outdated infrastructure at its branches to ensure minimal downtime and for optimal functioning. A new enterprise agreement was signed with Microsoft to inject greater productivity into the Bank's systems.

In terms of enhanced technologies, a pilot project was initiated in the year by introducing 3 cash recycling machines in a bid to move from cash ATMs to cash recycling machines. In time, these new machines will be rolled out to more branches.

During the year, 3D secure access was implemented for credit and debit cards to enable online transactions for the convenience of Pan Asia Bank's credit and debit card holders.

Alongside the new initiatives, the IT team continues in its risk and security assessments. The Bank's cyber security has been outsourced to specialists in the field to ensure a strengthened cyber risk framework for smooth and secure operations.

By the end of 2023, Pan Asia Bank will be on par with some of the largest banks in the country when it comes to providing digital banking solutions to customers.

Key Product Offerings

RISING FD

Unique Fixed Deposit that increases interest rates in line with market rate increases while safeguarding you from any interest rate decreases.

CHAMPION SAVER

Designed to give you the best of both worlds - the freedom to withdraw multiple times from savings while enjoying the high interest rates usually only offered on fixed deposit

TRADE SERVICES

Competitive short term to medium term trade financing solutions to meet global trade and working capital requirements

CHILDREN SAVINGS ACCOUNTS

To secure the future of your child, Pan Asia Daskam Children's Savings account offers you an additional 10% deposit on top of each and every deposit you make to your child's account while our Mithuru Max Children Savings account offers you an array of amazing gifts as the account balance grows.

HARITHA SHAKTHI

Sustainability Development Loan scheme is designed to help you and the nation to go green while offering you customised loans schemes to finance your sustainable development projects.

SWABHIMANA

'Swabhimana fulfills the personal loan needs of employees of selected government, semi-government and private companies.

Borrowers can obtain a loan of up to Rs 6 million with a repayment up to 12 years'

SAMMANA

Specialised package tailor-made for government pensioners to fulfill their dreams and live a life of dignity.

CREDIT CARDS

Credit Card customers have the privilege to enjoy fantastic discounts with every swipe of their Pan Asia Bank Credit Card at local / international leading merchants and lifestyle brands across all categories.

A trusted friend by your side

RAN ATHTHAMA

Obtain the highest value for your gold. Pan Asia Ran Aththama, a simple way to meet your urgent cash requirements as sometimes in life a little push is all you need.

LEASING

A variety of leasing products customised to take you closer to your dream vehicle. Our leasing product includes Pan Asia Budget plus leasing that allows you to stretch your budget while Pan Asia Business plus gives you the option to fulfill your short-term cash requirements using your vehicle.

Key Product Offerings

SME CREDIT

REMITTANCES

SME CREDIT

Offering you customised loans at a lower interest rates, to help you purchase machinery and equipments, finance working capital and capital requirements and all other financial needs with a fast and courteous service.

REMITTANCES

A fast, simple way to transfer (remit) money to beneficiaries in Sri Lanka, through Western Union, Small World or any other remittance partner, enabling them to collect cash from any Pan Asia Bank Branch.

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

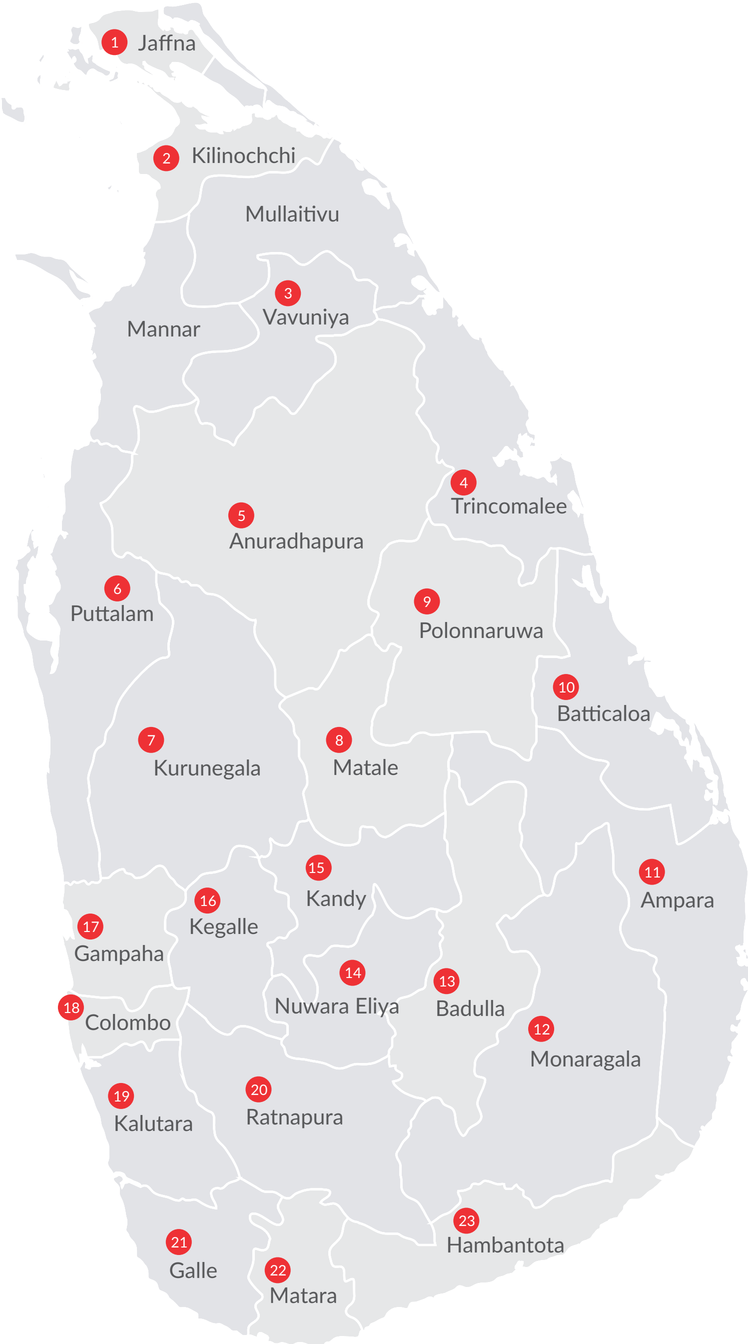
11. AMPARA DISTRICT
- Akkaraipattu
- Kalmunai

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 Network

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Akkaraipattu	060	No 8/2, Sagama Road, Akkaraipattu	Ampara	067-4924071	067-2279576	Weekdays : 9.00 AM to 3.00 PM
Akuressa	072	No 54, Matara Road, Akuressa	Matara	041-4935855	041-2284677	Weekdays : 9.00 AM to 3.00 PM
Ambalangoda	041	No 103, Galle Road, Ambalangoda	Galle	091-4943166	091-2258064	Weekdays : 9.00 AM to 3.00 PM
Ambalantota	053	No 155/1, Tissa Road, Ambalantota	Hambantota	047-4931850	047-2225056	Weekdays : 9.00 AM to 3.00 PM
Anuradhapura	032	No 49, Main Street, Anuradhapura	Anuradhapura	025-4976777	025-2234763	Weekdays : 9.00 AM to 3.00 PM
Arayampathy	057	No. 73B,73B 1/1,73C and 73C 1/1, Main street, Arayampathy East	Batticaloa	065-4926901	065-2248468	Weekdays : 9.00 AM to 3.00 PM
Badulla	045	No 22A, Bank Road (Lower Kings Street), Badulla	Badulla	055-4976777	055-2225771	Weekdays : 9.00 AM to 3.00 PM
Balangoda	062	No 84, Barns Rathwatte Mawatha, Balangoda	Ratnapura	045-4928310	045-2289081	Weekdays : 9.00 AM to 3.00 PM
Bambalapitiya	009	No 343, Galle Road, Colombo 04	Colombo	011-4374055	011-2506825	Weekdays : 9.00 AM to 3.00 PM
Bandarawela	048	No 340/1A, Badulla Road, Bandarawela	Badulla	057-4976777	057-2233554	Weekdays : 9.00 AM to 3.00 PM
Battaramulla	063	No 123C, Pannipitiya Road, Battaramulla	Colombo	011-4343260	011-2885622	Weekdays : 9.00 AM to 3.00 PM
Batticaloa	040	No 293, Trincomalee Road, Batticaloa	Batticaloa	065-4976777	065-2228486	Weekdays : 9.00 AM to 3.00 PM
Borella	031	No 996A, Maradana Road, Colombo 8	Colombo	011-4374207	011-2696461	Weekdays : 9.00 AM to 3.00 PM
Chilaw	036	No 58, Colombo Road, Chilaw	Puttalam	032-4976777	032-2224756	Weekdays : 9.00 AM to 3.00 PM
Chunnakam	061	No 92, Dr. Subramaniyam Road, Chunnakam	Jaffna	021-4923422	021-2241889	Weekdays : 9.00 AM to 3.00 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 3.00 PM
Dam Street	019	No 22, Dam Street, Colombo 12	Colombo	011-4374130	011-2346052	Weekdays : 9.00 AM to 3.00 PM
Dambulla	049	Jayalanka Building, Kandy Road, Dambulla	Matale	066-4928970	066-2284844	Weekdays : 9.00 AM to 3.00 PM
Dankotuwa	083	No 17 and 19,Nattandiya Road, Dankotuwa	Puttalam	031-4937130	031–2265790	Weekdays : 9.00 AM to 3.00 PM
Dehiwala	015	No 104, Galle Road, Dehiwala	Colombo	011-4374077	011-2730624	Weekdays : 9.00 AM to 3.00 PM
Embilipitiya	038	No 49, New Town Road, Embilipitiya	Ratnapura	047-4976777	047-2261624	Weekdays : 9.00 AM to 3.00 PM
Galewela	071	No 35, 35/1, Dambulla-Kurunegala Road, Matale Junction, Galewala	Matale	066-4929970	066-2288320	Weekdays : 9.00 AM to 3.00 PM
Galle	025	No 32, Old Matara Road, Galle	Galle	091-4976777	091-4976777	Weekdays : 9.00 AM to 3.00 PM
Gampaha	011	No 15, Rest house road, Gampaha	Gampaha	033-4976777	033-2220048	Weekdays : 9.00 AM to 3.00 PM
Gampola	030	No 29, Nuwara Eliya Road, Gampola	Kandy	081-4944625	081-2353998	Weekdays : 9.00 AM to 3.00 PM
Hatton	075	No 68, Co-operative Square Building, Hatton	Nuwara Eliya	051-4932040	051-2225665	Weekdays : 9.00 AM to 3.00 PM
Hikkaduwa	084	No 299/C, Galle Road, Pannamgoda, Hikkaduwa.	Galle	091-4944956	091-2274084	Weekdays : 9.00 AM to 3.00 PM
Homagama	076	No 381, High Level Road, Homagama	Colombo	011-4385740	011-2098484	Weekdays : 9.00 AM to 3.00 PM
Horana	077	No 95, Ratnapura Road, Horana	Kalutara	034-4941060	034-2266566	Weekdays : 9.00 AM to 3.00 PM
Ja-Ela	066	No. 206, Colombo Road, Weligampitiya ,Ja-Ela	Gampaha	011-4344149	011-2232824	Weekdays : 9.00 AM to 3.00 PM
Jaffna	037	No 570, Hospital Road, Jaffna	Jaffna	021-4976777	021-2221485	Weekdays : 9.00 AM to 3.00 PM
Kadawatha	026	No 143/H, Kandy Road, Kadawatha	Gampaha	011-4374185	011-2925192	Weekdays : 9.00 AM to 3.00 PM
Kaduruwela	052	No 918, Batticaloa Road, Kaduruwela	Polonnaruwa	027-4976777	027-2224474	Weekdays : 9.00 AM to 3.00 PM
Kaduwela	081	No 508/4, Avissawella Road,Kaduwela	Colombo	011-4328295	011-2538552	Weekdays : 9.00 AM to 3.00 PM
Kalmunai	042	No 100,104, Batticaloa Road, Kalmunai	Ampara	067-4976777	067-2225590	Weekdays : 9.00 AM to 3.00 PM
Kalubowila	047	No 46A, S D S Jayasinghe Mawatha, Kalubowila	Colombo	011-4374254	011-2828338	Weekdays : 9.00 AM to 3.00 PM
Kalutara	033	No 219/3, Galle Road, Kalutara South	Kalutara	034-4976777	034-2221258	Weekdays : 9.00 AM to 3.00 PM
Kandy	005	No 123, D S Senanayake Veediya, Kandy	Kandy	081-4976777	081-2232994	Weekdays : 9.00 AM to 3.00 PM
Kandy City Centre	044	No L1-5 A, Lower ground floor, Kandy City Centre, No 5, Dalada Veediya, Kandy	Kandy	081-4951034	081-2205776	365 Days : 9.00 AM to 3.00 PM
Katugastota	020	No 57, Kurunegala Road, Katugastota	Kandy	081-4946135	081-2500362	Weekdays : 9.00 AM to 3.00 PM
Kegalle	027	No 107, Main Street, Kegalle	Kegalle	035-4976777	035-2221018	Weekdays : 9.00 AM to 3.00 PM
Kekirawa	067	No 91,93, Main Street, Kekirawa	Anuradhapura	025-4928934	025-2264598	Weekdays : 9.00 AM to 3.00 PM

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Kilinochchi	043	No 161, Kandy Road, Kilinochchi	Kilinochchi	021-4925952	021-2280075	Weekdays : 9.00 AM to 3.00 PM
Kiribathgoda	054	No 67, Makola Road, Kiribathgoda	Gampaha	011-4376061	011-2911041	Weekdays : 9.00 AM to 3.00 PM
Kirulapone	022	No 100, High Level Road, Colombo 06	Colombo	011-4374152	011-2515227	Weekdays : 9.00 AM to 3.00 PM
Kollupitiya	003	No 450, Galle Road, Colombo 03	Colombo	011 - 4667022	011-2301150	365 Days : 9.00 AM to 3.00 PM
Kotahena	014	No 215A, George R De Silva Mawatha, Colombo 13	Colombo	011-4374066	011-2346066	Weekdays : 9.00 AM to 3.00 PM
Kottawa	080	No 364/11, High level Road, Kottawa	Colombo	011-4324145		Weekdays : 9.00 AM to 3.00 PM
Kuliyapitiya	046	No 74 Kurunegala Road, Kuliyapitiya	Kurunegala	037-4943733	037-2284141	Weekdays : 9.00 AM to 3.00 PM
Kundasale	058	No 248, Digana Road, Kundasale	Kandy	081-4951644	081-2424624	Weekdays : 9.00 AM to 3.00 PM
Kurunegala	012	No 22, Suratissa Mawatha, Kurunegala	Kurunegala	037-4976777	037-2221731	Weekdays : 9.00 AM to 3.00 PM
Maharagama	023	No 173/1, Highlevel Road, Maharagama	Colombo	011-4374163	011-2838397	365 Days : 9.00 AM to 3.00 PM
Malabe	035	No 410/2, Athurugiriya Road, Malabe	Colombo	011-4374218	011-2744405	Weekdays : 9.00 AM to 3.00 PM
Matale	039	No 165, Trincomalee Street, Matale	Matale	066-4976777	066-2223007	Weekdays : 9.00 AM to 3.00 PM
Matara	013	No 45B, Anagarika Dharmapala Mawatha, Matara	Matara	041-4976777	041-2231362	Weekdays : 9.00 AM to 3.00 PM
Mawanella	082	No 300, Kandy Road, Mawanella	Kegalle	035-4935291	035-2246140	Weekdays : 9.00 AM to 3.00 PM
Minuwangoda	069	No 42, Veyangoda Road, Minuwangoda	Gampaha	011-4335770	011-2295929	Weekdays : 9.00 AM to 3.00 PM
Monaragala	059	No 141,Wellawaya Road,Monaragala	Monaragala	055-4929313	055-2277223	Weekdays : 9.00 AM to 3.00 PM
Moratuwa	024	No 517, Galle Road, Rawathawatte, Moratuwa.	Colombo	011-4374174	011-2641354	Weekdays : 9.00 AM to 3.00 PM
Narahenpita	021	No 526, Elvitigala Mawatha, Colombo 05	Colombo	011-4374141	011-2368667	Weekdays : 9.00 AM to 3.00 PM
Nawala	079	No 162, Nawala Road, Nugegoda	Colombo	011-4322814	011-2853043	Weekdays : 9.00 AM to 3.00 PM
Negombo	010	No 199, St. Joseph's Street, Negombo	Gampaha	031-4976777	031-2231259	Weekdays : 9.00 AM to 3.00 PM
Nelliady	056	No 208A, Jaffna Road, Nelliady	Jaffna	021-4923164	021-3734879	Weekdays : 9.00 AM to 3.00 PM
Nugegoda	008	No 132C, High Level Road, Nugegoda	Colombo	011-4374044	011-2828228	Weekdays : 9.00 AM to 3.00 PM
Old Moor Street	018	No 314, Old Moor Street, Colombo 12	Colombo	011-4374099	011-2392897	Weekdays : 9.00 AM to 3.00 PM
Panadura	017	No 506, Galle Road, Panadura	Kalutara	038-4976777	038-2243053	Weekdays : 9.00 AM to 3.00 PM
Panchikawatta	002	No 262, Sri Sangaraja Mawatha, Colombo 10	Colombo	011-4374011	011-2447452	Weekdays : 9.00 AM to 3.00 PM
Peradeniya	051	No 767, 769 & 769/11,Sirimawo Bandaranayake Mawatha, Kandy	Kandy	081-4951180	081-2232441	Weekdays : 9.00 AM to 3.00 PM
Pettah	004	No 64, Keyzer Street, Colombo 11	Colombo	011-4374022	011-5363652	Weekdays : 9.00 AM to 3.00 PM
Pilimathalawa	065	No 217, Kandy Road, Manadeniya,Pilimathalawa.	Kandy	081-4951870	081-2575335	Weekdays : 9.00 AM to 3.00 PM
Piliyandala	055	No 107, Horana Road, Mampe, Piliyandala	Colombo	011-4376251	011-2604070	Weekdays : 9.00 AM to 3.00 PM
Puttalam	064	No 116A, Kurunegala Road, Puttalam	Puttalam	032-4929663	032-2267967	Weekdays : 9.00 AM to 3.00 PM
Rajagiriya	006	No 468, Kotte Road, Rajagiriya	Colombo	011-4374033	011-2866823	Weekdays : 9.00 AM to 3.00 PM
Ratmalana	050	No 446, Galle Road, Ratmalana	Colombo	011-4374261	011-2738840	Weekdays : 9.00 AM to 3.00 PM
Ratnapura	007	No 37, Bandaranayake Mawatha, Ratnapura	Ratnapura	045-4976777	045-2231848	Weekdays : 9.00 AM to 3.00 PM
Tangalle	074	No 3, Annapitiya Road, Tangalle	Hambantota	047-4929626	047-2241215	Weekdays : 9.00 AM to 3.00 PM
Thalawathugoda	068	No 351/E, Pannipitiya Road, Thalawathugoda	Colombo	011-4344650	011-2796016	Weekdays : 9.00 AM to 3.00 PM
Trincomalee	073	No 459, Dockyard Road, Trincomalee	Trincomalee	026-4925525	026-2225700	Weekdays : 9.00 AM to 3.00 PM
Vavuniya	034	No 14, 2nd Cross Street, Vauniya	Vavuniya	024-4976777	024-2225444	Weekdays : 9.00 AM to 3.00 PM
Warakapola	070	No 139, Kandy Road, Warakapola	Kegalle	035-4928777	035-2267544	Weekdays : 9.00 AM to 3.00 PM
Wattala	016	No 218, Negombo Road, Wattala	Gampaha	011-4374088	011-2945104	Weekdays : 9.00 AM to 3.00 PM
Weligama	085	No 204, Hettiveediya, Weligama	Matara	041-4933116		Weekdays : 9.00 AM to 3.00 PM
Wellawatte	029	No 135, Galle Road, Colombo 06	Colombo	011-4374196	011-2362399	Weekdays : 9.00 AM to 3.00 PM
Wennappuwa	028	No 6, Chilaw Road, Wennappuwa	Puttalam	031-4934870	031-2249556	Weekdays : 9.00 AM to 3.00 PM
World Trade Centre	001	Level 2, East Tower, World Trade Centre, Colombo 01	Colombo	011-4976777	011-2346053	Weekdays : 9.00 AM to 3.00 PM

Correspondent Banks

1. CANADA
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 Mellon
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 C I B
Citibank N.A.

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

4. CHILE
Banco Santander Chile

5. UNITED KINGDOM
Arab National Bank
Bank of Ceylon (UK) Ltd.
Habib Bank Zurich PLC
Mashreq Bank PSC
Shinhan Bank
Standard Chartered Bank

6. NETHERLANDS
Habib Bank Ltd.

7. GERMANY
American Express Bank GMBH
Deutsche Bank AG
Landesbank Hessen – Thueringen Girozentrale
Standard Chartered Bank AG
Commerzbank AG

8. ITALY
Intesa Sanpaolo S.P.A
Banca Popolare Di Vicenza Scpa
Cassa Di Risparmio Di Carrara
Cassa Di Risparmio Del Veneto S.P.A
Credit Agricole Friuladria SPA
Banca Ubae SPA

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

10. SERBIA
Unicredit Bank SRBIJA A.D

11. EGYPT
Mashreq Bank

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

13. TURKEY
ICBC Turkey Bank A.S.

14. SOUTH AFRICA
State Bank of India
Absa Bank Ltd.

15. ZIMBABWE
Standard Chartered Bank Zimbabwe Ltd.

16. ZAMBIA
Standard Chartered Bank Zambia PLC

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

18. ISRAEL
Israel Discount Bank Ltd
Mercantile Discount Bank Ltd.

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

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

21. QATAR
Standard Chartered Bank
Mashreq Bank
Doha Bank

22. 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

23. SEYCHELLES
Bank of Ceylon

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

25. MALDIVES
Bank of Ceylon
Bank of Maldives PLC.

26. INDIA
Bank of Ceylon
Bank of Nova Scotia
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 Q S C
Indian Overseas Bank

27. NEPAL
- Himalayan Bank Ltd
- Laxmi Bank Ltd.

28. RUSSIA
- Unicredit Bank AO

29. BANGLADESH
- Islami Bank Bangladesh Ltd.
- Mercantile Bank Ltd.
- Bank Asia Ltd.

30. 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.

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

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

33. SINGAPORE
- 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
- Overseas Chinese Banking Corporation Ltd.
- Standard Chartered Bank (Singapore) Ltd.
- Citibank N.A.
- HSBC Limited

34. CAMBODIA
- ANZ Royal Bank of Cambodia Ltd.

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

36. HONG KONG
- Australia and New Zealand Banking Group Ltd.
- Intesa Sanpaolo S.P.A
- Habib Bank Zurich (Hong kong) Ltd.
- ICICI Bank Ltd.
- Standard Chartered Bank (Hong Kong) Limited
- UBAF (Hong Kong) Ltd
- Unicredito Italiano SPA
- Wells Fargo Bank N.A.
- Citibank- N.A.

37. TAIWAN
- ABN Amro Bank N.V.
- Deutsche Bank AG,
- Standard Chartered Bank (Taiwan) Ltd.
- Wells Fargo Bank N.A.
- DBS Bank (Taiwan) Ltd.
- Citibank Taiwan Ltd.

38. PHILIPPINES
- Citibank N.A.

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

40. KOREA
- Kookmin Bank
- Keb Hana Bank
- Shinhan Bank
- Woori Bank

41. JAPAN
- National Bank of Pakistan
- Overseas Chinese Banking Corp. Ltd.
- Resona Bank Ltd.
- Standard Chartered Bank
- Mizuho Bank Ltd.
- The Iyo Bank Ltd.
- The Chiba Kogyo Bank Ltd.
- The Shizuko Bank Ltd.
- Mufg Bank Ltd.
- Wells Fargo Bank N.A.

42. AUSTRALIA
- Australia & New Zealand Banking Group Ltd.
- National Australia Bank Ltd.
- St. George Bank A Division of Westpac Banking Corporation
- Citibank N.A.

43. SOLOMON ISLANDS
- Pan Oceanic Bank

44. NEW ZEALAND
- ANZ Bank New Zealand Ltd.

Corporate Social Responsibility

Corporate citizenship is at the core of Pan Asia Bank's operations and delivered through projects that benefit communities and the environment.




> The project is titled '100 Trees for 100 years' and marks the Bank's commitment to plant 100 trees within the school to celebrate its 100th anniversary

These impactful projects have helped to establish deep roots in the community while simultaneously demonstrating the 'Truly Sri Lankan Bank' values embraced by the Bank. Despite the numerous challenges faced over the last few years, the Bank sustained its involvement in community projects. During the year under review, the following CSR initiatives were conducted:

'100 Trees for 100 Years' Project

Pan Asia Bank carried out notable projects to help Ratmale Tissa Maha Vidyalaya -Srawasthipura, commemorate its centenary on 11th May 2022. The project is titled '100 Trees for 100 years' and marks the Bank's commitment to plant 100 trees within the school to celebrate its 100th anniversary. A key objective of Pan Asia Bank is to uplift living standards of the communities in which it operates.

This project fulfilled Pan Asia Bank's brand promise of being 'Truly Sri Lankan' by identifying and delivering a true requirement of a needy segment in Sri Lanka. This project is also aligned with the Bank's pioneering green banking status, being the most eco-friendly and sustainable Bank in Sri Lanka. This project will inculcate eco-friendly consciousness amongst students and inculcate in them the benefits of preserving the environment.

As the school completed a century, there were many aspects requiring improvement. Pan Asia Bank took the lead in renovating the library facility of the school and even contributed the necessary books to make the facility usable immediately. The staff of the Bank around the country donated many books as per the school's requirement.




'Together we can save a Life' Blood Donation Programme

Pan Asia Bank continued with its noble efforts towards saving lives by organising yet another blood donation programme as part of a series of CSR initiatives undertaken to commemorate its 27th anniversary celebrations. The blood donation camp is an annual employee engagement activity to create a platform for employees to contribute towards the well-being of the members of society.

'Day of Charity'

During the year 2022, the country witnessed shortages of medicines impacting the health of patients in need of life-saving medication and equipment. In keeping with its stature as the Truly Sri Lankan Bank, Pan Asia Bank carried out a meaningful charity project to donate much-needed medicines to the Apeksha Hospital, so that it is able to care for its patients in a timely manner.

Human Capital

Despite all the challenges, Pan Asia Bank ensured the health, safety and career development of employees through the period.

> Despite all the challenges, Pan Asia Bank ensured the health, safety and job security of employees through the period

The year was beset by multiple crises in the wider economy, nevertheless, the organisation's commitment to its human resources remained steadfast. The Bank treated this as an opportunity to address critical requirements in the business, especially in enhancing the skills of employees to support greater profitability and providing career opportunities to employees thereby positioning the Bank with a futuristic approach. This is expected to provide a cushion to the Bank to offer internal opportunities for growth and progress for staff prior to embarking on the external recruitment of new employees while enhancing their skill and knowledge. This strategy helped the Bank immensely at a time where it has been difficult to attract external talent due to migration of employees from the banking industry which was seen during the year.

Despite all the challenges, Pan Asia Bank ensured the health, safety and job security of employees through the period. In addition, the Bank sustained its diverse and inclusive culture while upholding the principles of equal opportunity irrespective of gender, age, race, disability or religion across the organisation.

Our employees are managed through effective training, strong engagement, constant evaluation, appreciation and encouragement. The employee engagement, welfare, development, career progress and employee-friendly and transparent policies have allowed us to be bestowed with 'Employee ESG Program of the Year Sri Lanka 2022' accolade by the Global Banking and Finance Awards, which reflects the Bank's unique workplace culture. The Bank operates a well-knit Human Resource framework called 'CARE' which encompasses four pillars – Connect, Awareness, Reward, and Engagement – to engage and support the employee to the greatest extent possible.

Talent Acquisition

Despite many challenges the Bank had to face in attracting the external talent, by using different strategies, we ensured to optimise talent acquisition and skills management within the workforce, throughout the year. We prioritised recruitment based on the business needs and delivered the required numbers to support the business. 271 young talents were recruited during the year to lead our organisation to the future.

Career Progression

Although the year under review also has been a challenging year for retention of talent, the Bank was able to mitigate the risk of losing its staff by strategically opening the internal career prospects for them where 173 positions were identified into which employees could be promoted after taking in to consideration the job related exams which were facilitated at Ten (10) E-Soft centres around the country together with their performance, qualifications and the marks obtained at the interview. At the end of this promotion process, 169 employees were promoted which is 12% of the total workforce. This increased the motivation of our employees and enabled them to progress further up the career ladder and achieve their full potential. Further, 13 Branch Managers and an Area Manager were appointed internally during the year. This reflects the skilled professionals housed in the Bank, which makes it easier to deploy them across the Bank at short notice. This created an ideal opportunity for employees to enhance their skills and knowledge by expanding their exposure to various areas of the Bank providing scope for job enrichment.

'EMPLOYEE ESG PROGRAM OF THE YEAR SRI LANKA 2022'

The Bank's employee engagement, welfare, development, career progress and employee-friendly and transparent policies have allowed us to be bestowed with 'Employee ESG Program of the Year Sri Lanka 2022' accolade by the Global Banking and Finance Awards.

SKILL DEVELOPMENT

23,000 Training Hours

TALENT PLACEMENTS / ROTATION

131

STAFF DELIGHT ACTIVITIES

44

TOTAL HEADCOUNT

1,403

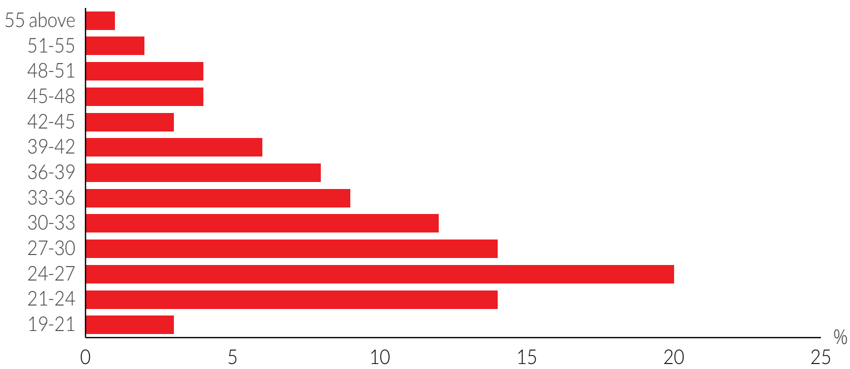
12% **INTERNAL TALENT GROWTH**

13%	16%	12%
Senior Level	Middle Level	Junior Level

275 **TOTAL HIRES**

2	8	265
Senior Level	Middle Level	Junior Level

Age Analysis



52%

48%

Human Capital

A Talent Management team was formed within the HR Division, as the main focus during the year was on enhancing skills sets of employees and developing them by providing more career opportunities. The Talent Management team identifies the talent within the organisation through the Performance Management Reviews, any gaps in knowledge and skills are further identified and developed with the help of Learning & Development team and provide career advancement to the identified talents.

Further, the Bank has developed a concept where talent placement is done at branches closer to their home towns as much as possible and transfers for any employee will take place only within the Region where they are permanently residing. This enabled most of the staff to travel to work from home thereby saving the cost of accommodation and other related costs while having the opportunity to stay with their loved ones.

Future Proofing through Learning and Development

The local business environment witnessed rapid changes during the year. However, Pan Asia Bank was agile in steering an innovative course. As a bank dedicated to the well-being of its employees, customers and other stakeholders, various efforts were launched to equip employees with the productivity, efficiency and skills necessary to realise their full potential to better respond to current and future needs. Along with maintaining an even keel and ensuring financial stability, contingency plans were implemented to ensure an uninterrupted pipeline of talent.

The focus of the Bank's Learning and Development strategy during the year was to prepare a cohort of future leaders and endow the next generation of employees with the skill sets required to succeed in critical roles, whilst upskilling the existing workforce. Amidst the climate of economic challenges, equipping the Bank's leadership with enhanced skills is imperative for progress.

Critical leadership roles were identified and the employees in those positions were upskilled where necessary, so that they are empowered to face any challenges. This was a key activity this year along with succession planning to safeguard the Bank from any future worst-case scenarios. This initiative will help to achieve the desired growth and progress for the Bank and its employees, whilst enhancing overall quality standards.

Right from the onset of the pandemic, Pan Asia Bank turned pandemic-induced challenges into opportunities by sustaining training and development programmes via digital platforms. In the year 2022, about 23,000 training hours were delivered via virtual training platforms, translating into over 16 hours of training per employee despite the challenges faced.

A plethora of learning opportunities was provided by offering practical training - thus breathing life into the theoretical training. The transition to physical training programmes began at the end of 2022. Some key programmes conducted for the identified critical roles are as follows:

Credit Officers' Development Programme

In the current context, credit lending has been the key to withstand most economic downfalls. It was imperative to equip credit officers of the bank with updated knowledge in order for them to carry the business forward. Identified staff members with the potential to carry out the duties of a credit officer were included in the programme and given the opportunity to enhance their technical and practical knowledge in Retail and SME lending, to improve the lending book with quality credit.

The sessions were conducted by internal experts, product owners and highly esteemed senior lecturers from the Institute of Bankers of Sri Lanka. The participants' skill and knowledge were assessed post the training programme to analyse the knowledge level and programme success, and also to identify further development areas of officers. At the end of the programme, a pool of potential credit officers was created.

Cash Officers' Development Programme

The Cash Officers' Development Programme was formulated to develop confidence and best practices among existing cash officers. The programme focused on technical know-how and the soft skills required for good customer service and personal and professional development. The principles of correct cash handling were highlighted throughout the programme, providing the backbone of knowledge for the officers to function. This programme was topped off with each cash officer being provided the opportunity to demonstrate their newly-acquired skill sets to the respective branch management.

The sessions were conducted by internal experts along with acclaimed senior university lecturers who conducted insightful sessions on various topics, including 'Emotional Intelligence'. Emotional Intelligence is important in today's context with the changes in society and local economy affecting people's behaviour.

Orientation Programmes

Culture shapes results. It reflects assumptions, values and beliefs, and affects behaviour directly. It has the capacity to differentiate a successful organisation from another. Each organisation already has their pre-existing culture to which new recruits need to become accustomed to in order to begin contributing towards the goals of the organisation at a faster rate.

In light of this, Orientation Programmes were conducted throughout the year to ensure that new employees were able to settle in well and contribute positively to the Bank's goals. The programmes consisted of diverse areas related to the Bank's core values and an introduction to each operation of the Bank, thus easing the settling in process. Further, each of the new recruit was introduced to a 'buddy' under the Buddy Development Programme launched at the beginning of this year. Having a buddy will help to offer insights to the Bank's culture and to settle down smoothly in the system.

Potential Branch 2nd Officers' Development Programme

A Potential Branch 2nd Officers' Development Programme was devised to identify potential leaders within branches and to groom them for leadership roles. The programme involved technical sessions as well as soft skills development sessions needed for leadership over a period of 12 months. Overall, the programme groomed more than 50 identified staff members with the goal of taking up branch leadership roles at the opportune time.

Branch Managers' Development Programme

While focusing on succession planning, it was also important that the existing staff members' skills were also updated. Continuous development is key to being aligned to the changes in the industry and hence a Branch Managers' Development Programme was commenced with emphasis on grooming existing frontline branch managers. With information gained from the current Branch Managers, a plan was formatted and training delivered to address those needs. This programme was also aligned to inform them of the current market and industry trends in order to aid their decision-making skills. The sessions were conducted by a well-renowned external lecture panel.

Strategic Management Workshop for Corporate Management

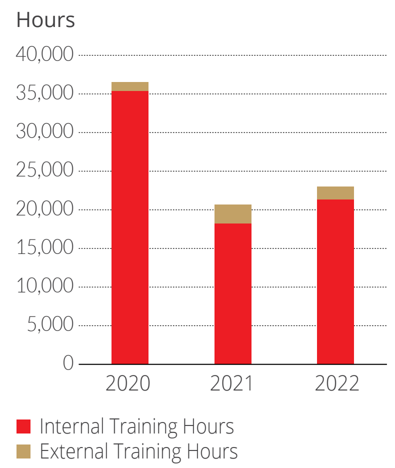
Strategy is an important backbone for any business and to hone the Bank's capabilities in this regard, a Strategic Management Workshop was conducted for the Bank's Corporate Management team by the faculty of the PricewaterhouseCoopers Academy. The workshop imparted valuable insights on competitive strategy formulation. The well-known 'Blue Ocean' strategy was discussed and formulated to aid in fulfilling the goals of the Bank in the next year. The entire team came together successfully to build award-winning strategies and implement processes that lead to success in the banking industry.

Training hours

The total training hours conducted during the year is 23,000 hours.

Training Category	2020	2021	2022
Internal Training Hours	35,363	18,245	21,330
External Training Hours	1,194	2,428	1,670
Total Training Hours	36,557	20,673	23,000

Total Training Hours



Empowering Employees

Championing the voice of employees is essential for them to feel validated, which delivers a higher degree of job satisfaction. Therefore, various initiatives are held to ensure the entire team has the opportunity to fearlessly speak their minds to achieve a common goal and to foster a positive working environment. Employees are involved in internal decision-making processes by providing them with opportunities to engage in direct discussions with Senior Management. This year too, the Bank provided ample opportunities for both parties to engage in fruitful discussions through several platforms, such as:

JCC Meetings

Reflecting its commitment to ensuring healthy employer-employee relations across the organisation, meetings of the Joint Consultative Committee (JCC) were held online via Zoom under the leadership of the Managing Director/ CEO, with several members of the Corporate Management as well. These sessions empowered employees to put forward their opinions on matters that impact them. Since the introduction of this mechanism, the Bank has witnessed a marked improvement in organisational efficiencies and employee productivity thus creating better value for all stakeholders of the Bank.

Employee Engagement

The Bank maintained its great workplace culture by offering spiritual, emotional and intellectual stimulation outside of job roles with various activities. Employees can take the opportunity of a full calendar of social activities through the year which helps them showcase their talents and expand their potential.

While equipping employees with the right tools to deliver to their potential, it is also important for them to have an optimal work-life balance that helps them manage their personal and professional lives with mindfulness and equanimity. Engaged employees are assets to any organisation and therefore, during the year the Bank takes every opportunity to celebrate religious, cultural and fun events for a friendly and enthusiastic workplace. These activities foster better emotional and mental health while also instilling a feeling of being valued by the Bank.

Some of the activities held during the year 2022 were:

Thai Pongal

Thai Pongal, one of the most significant cultural event of the Hindu community, was celebrated in a meaningful manner by Pan Asians - reflecting their commitment in promoting ethnic harmony, unity and workplace diversity. In keeping with past traditions, the staff attached to the branch network decorated respective branches in a colourful manner with attractive 'Kolam' and other traditional decorations with a view to demonstrating their gratitude and as a means of sharing the spirit of this cultural ceremony.

Eat healthy and stay healthy

'Healthy Food Day' was initiated where employees were encouraged to consume healthy food on a pre-arranged date rich in nutrients with low to moderate amounts of fats for their breakfast and lunch. Held for the consecutive 2nd year, the 'Healthy Food Day' has been enthusiastically embraced by the staff members who have hailed it as a timely initiative, given the rapid rise in non-communicable diseases in the country.

Commemorating the 74th Independence Day of Sri Lanka

Pan Asia Bank commemorated 74 years of independence of the nation by hoisting the national flag and singing the national anthem. A specially-designed 'screen-saver' was displayed on desktops by staff members during the commemorative week, thus reinforcing a sense of pride in the nation's independence celebrations.

Weekend Family Movie Night

Given people's busy lifestyles, finding quality time to spend with loved ones can be quite challenging. The

'Weekend family movie night' initiative has been an excellent solution to this challenge as it affords one of the best ways for families to connect and spend some quality time together in the comfort of their homes.

Valentine's Day

Valentine's Day was transformed into a truly engaging employee initiative by providing an opportunity to nominate the Valentine Prince and Princess from amongst the employees. The contest was held via a digital platform and generated enthusiasm and excitement across the organisation, whilst enhancing camaraderie.

'Employee Appreciation Day' held for the second successive year

With a view to creating a platform for Pan Asians to show their gratitude to their peers, colleagues and subordinates for their efforts and contributions towards delivering the goals, each employee was encouraged to send an 'Appreciation Note' to a fellow staff member, expressing their heartfelt appreciation for his or her support, contribution and commitment to create value for the organisation. All staff members actively participated in this exercise, which eventually helped to strengthen team bonds whilst reinforcing camaraderie.

International Women's Day

Pan Asia Bank joined millions of responsible citizens from around the world to celebrate the achievements of women on this year's International Women's Day, with a renewed commitment to ensure a workplace free of bias and discrimination for the female workforce of the Bank. Female employees dressed up in 'Purple', 'White' or 'Green' theme colours of the International Women's Day 2022. As part of the celebrations, a special guest lecture by Dr. Charuni Senanayake was organised via Zoom for them during which she shared her expertise on the multifaceted role played by women in a special presentation, titled 'Finding your balance in an ever-changing world'.

E-sports day

The much-awaited E-sports day was planned for the second consecutive year with a view to helping employees overcome the stress and monotony associated with their work-life.

Chocolate Day

'Chocolate Day', allows chocolate lovers across the Bank, irrespective of their age and stature, to indulge in their favourite treat without any guilt whatsoever. 'Chocolate Day' gave everyone a chance to celebrate the taste of all kinds of chocolates.

Big Match Fever returns to Pan Asia

Enabling the staff to relive the good old school days, employees were allowed to display their college flags in their respective workstations and wear their college t-shirts, while

arrangements were made to raise the cricketing spirits of the staff by playing the customary 'papare' music throughout the day.

Cyber Sale and bazaar offers super deals

Pan Asians couldn't have bargained for better deals during the Avurudu and Christmas seasons as the traditional 'Cyber Sale' was organised yet again, thus rolling out a spate of deals to make the festive season even more exciting. Further, a Bazaar was organised at the Head Office Car Park -offering an array of products at concessionary rates for staff and their families to purchase and to exchange gifts in the tradition of Christmas.

'Hela Osu Pan Day' held for the second successive year

'Hela Osu Pan Day' was held yet again to promote indigenous Sri Lankan food and beverages, including herbal drinks and preparations among staff members with a view to encouraging them to embrace healthy living and consumption practices. Sachets of 'Beli Mal' and 'Iramusu' were distributed among staff, enabling them to experience the soothing taste and value of these wonder beverages.

Avurudu rituals take pride of place during Avurudu Celebrations

Employees made every effort to keep age-old Avurudu traditions alive, taking the time to practice rituals associated with this grand festival to promote Sri Lankan identity, values and traditions to uphold the 'Truly Sri Lankan Bank' positioning. Staff members also enjoyed taking part in traditional 'Avurudu kreeda' and dressing up in traditional Avurudu attire during the festive season to share the spirit and joy of the Sinhala and Tamil Avurudu with all Sri Lankans.

Avurudu Kumara and Kumariya 2022

The spirit of Avurudu was very much alive and maintained across the branch network with employees voting for the Avurudu Kumara and Kumariya via the digital platform. This exciting activity attracted an overwhelming response.

'Ape Gedara Vesak'

Staff members were encouraged to celebrate the Vesak festival - the most significant Buddhist ceremony in Sri Lanka - together with their loved ones and the wider community by decorating their homes and branches with colourful Vesak lanterns and illumination with a view to promoting peace, harmony and togetherness among all Sri Lankans.

Vesak Card Competition 2022

Employees took part in a Vesak card competition to express their creativity and to distribute wishes of peace for their loved ones, peers and the people at large. A large number of creatively designed cards made their way into the competition, all depicting the significance of this revered Buddhist religious festival.

World Environment Day

Pan Asians joined hands to commemorate the World Environment Day held annually on 5th June by taking measures to enlighten employees on the importance of reducing environmental impact on the planet. As part of the programme, a series of educational sessions and activities were organised to educate as well as to encourage staff to preserve natural and energy sources such as air, water, electricity, fuel, paper, food and so on, which are often taken for granted.

Poson Bhakthi Gee held virtually, yet again

The traditional Poson Devotional Songs programme was organised virtually, receiving an overwhelming response from across the branch network - with many employees volunteering to join the programme, which was telecasted on Sri Lanka Rupavahini on Poson Poya day for the benefit of the wider public.

Little Picassos showcase their creative prowess

The ever-popular Kids' Art Competition was held for the third consecutive year, creating a platform for the children of staff to showcase their creative abilities, thus supporting their learning and development. As in the past, the competition attracted an enthusiastic response from the participants, who were keen to display their creative talent in drawing and painting.

Staff Art Competition

As Sri Lanka is being promoted as a fascinating destination for tourists, this year's topic for the Staff Art Competition was 'Sri Lankan Tourist Attractions' where the staff was encouraged to describe Sri Lanka through art. The competition, now in its 3rd consecutive year, attracted the attention of a large number of talented staff members who were eager to be part of this exciting contest.

Awareness Session on Food Preservation Techniques

The world is faced with a severe food shortage stemming from multiple socio-economic factors, such as rising poverty levels, impact of climate change, economic meltdown, global conflicts, wastage of food and more. An awareness session on food security techniques was organised with a view to educating staff members on the importance of preserving food as well as optimising food usage and consumption.

Pan Asians rekindle childhood memories

Flying kites is not only a great way to enjoy the outdoors, but it can also boost our creativity, reduce stress and help in socialising, important benefits given stressful lifestyles of people. The staff took part in 'Fly Fun' programme where they shared images of their kites with others. This was an enjoyable and engaging experience for the whole family.

Online Quiz

Team HR once again kicked off the popular learning initiative, 'Online Quiz', where the staff was afforded an opportunity to showcase their knowledge on diverse subjects ranging from general knowledge, current affairs, entertainment, sports, geography, wildlife, and science and food before a virtual audience that included their peers and seniors from across the Bank.

Saying 'Cheese' with my pet…

Owning a pet can be a truly exciting and relaxing experience. A novel employee engagement activity was planned where team members were encouraged to pose for a photograph with their pet and to share it with the rest of the staff. Initiated for the first time, the move was enthusiastically received by the pet owners and pet lovers amongst the team.

Seeing the world from diverse perspectives - Photography Contest 2022

The Pan Asia Bank Photography Contest was rolled out to invite Pan Asians who have embraced photography as a hobby. The contest was open for employees of all ages, backgrounds and expertise levels, who were encouraged to submit their 'best shot'. As in the previous instance, the contest received an overwhelming response from photography enthusiasts across the Bank, with over 400 entries vying to be amongst the winning entries.

Literacy Week

'Literacy Week' underscores the importance attached by the Bank to enhance the literacy level of its team members. The initiative encourages employees to take part in a series of competitions to coincide with the National Literacy Month in September. The participants had the opportunity of submitting their original literary works in the form of articles, poetry, short stories, essays or even scripts, publications and song lyrics in a language of their choice, thereby creating a platform for them to showcase their literary abilities.

Pan Asia 'Poddo' showcase their musical prowess

An exciting activity for the children of employees was organised to coincide with the World Children's Day, where the kids showcased their singing skills. Titled 'Voice of PABC Poddo', the children were requested to sing the world famous charity single, 'We are the World' and forward either the voice or video-recorded version of their song to be merged into a larger video clip encompassing the work of all the participants, which was released on the World Children's Day on 1st October.

Pan Asia Bank celebrates its 27th Anniversary

Pan Asia Bank celebrated 27 years of service to the nation in October 2022. All staff members were attired in corporate colours on the day of the anniversary. A Pirith ceremony and other religious ceremonies were held to invoke the blessings of the staff and their families and to wish for the well-being of customers.

Let's Light a Lamp and Make a Wish

Deepavali, the vibrant festival of lights, was celebrated by all Pan Asians by lighting of lamps which forms a part of celebrations and rituals of this festival. Pan Asians together with their families lit lamps, wishing peace and happiness.

Pan Asians bank on 'Home Gardening'

Pan Asians with green fingers recently had the opportunity of attending an exciting Plant and Seeds Sale organised in collaboration with Hayleys Agriculture and Landmark Agro Seeds (Pvt) Ltd. The move reflects the commitment of Pan Asians to extend support to the government-led programme of promoting food security in the country by growing food crops in every cultivatable plot of land, particularly in backyards that are often neglected and underutilised.

Team HR moots 'Talk to an Expert'

Pan Asia Bank recently partnered with Ninewells Hospital to educate staff members on important health considerations via webinars. The webinar on prevention of diabetes through healthy dietary habits was conducted by Dr. Shamitha Dassanayake, Consultant Physician, who highlighted the impact of diabetes, one of the most challenging Non-Communicable Diseases that affect the working population.

Deck the Halls, Celebrate Christmas

In order to whip up the Christmas spirit, a contest was initiated to recognise and reward the five best decorated departments/branches, which added more excitement to this event.

Pan Asia Virtual Carols

Pan Asians came together with their colleagues around the country to hold Christmas Carols, continuing the annual tradition. An attractive audio-visual clip was posted on social media for mass viewing and telecast on Sri Lanka Rupavahini on Christmas day for the benefit of the wider public, thus providing an opportunity for them to showcase their talents.

Risk Management

The role of risk management has become crucial than any other time due to the state of current economic condition in the country.

The Country's economy faced many challenges during the past few years with the spillover effect of the economic crisis. Credit quality level of the banking industry deteriorated, which has directly affected the quality of the lending portfolio of the Bank. Further, the increase in interest rates has significantly increased the monthly repayments of loans, making it difficult for customers to service the facilities on time. As a result, the nonperforming loan portfolio has increased, which in turn has resulted in an increase in impairment provisioning. Higher provisioning has reduced the profitability of banks and has made it challenging to manage the regulatory requirements under BASEL III. Declined profits also affect the retained earnings and capital adequacy ratios, which subsequently reduces the Bank's ability to grow its lending book.

The Bank has adopted stringent measures to mitigate the risk associated with the prevailing stressed operating environment by way of implementing the following strategic initiatives:

Credit Risk

- Lending has been focused towards a few segments, sectors and products based on the risk profile.
- Moratorium loans were granted in line with CBSL directions to support the economic revival after carrying out in depth reviews of client's requests.
- Credit facilities on unsecured basis have been curtailed for risky segments and sectors.
- Delegated authority allowing fresh disbursement has been reviewed periodically to maintain the credit quality of the lending book of the Bank.
- Collection and Recoveries is one of the Key Performance Indicators of the lending unit.
- Large value exposures are reviewed quarterly jointly with the business unit and the Risk Management unit to identify early warning signals on a timely manner.
- Stress testing scenarios and the policy have been reviewed inline with the latest micro/macro-market conditions.

Market Risk

During the year, large volatilities were observed in relation to factors affecting market risk and liquidity risk mainly due to the higher fluctuation of interest rates & exchange rates. It was a very challenging year to manage & monitor these risks and Bank has taken the following initiatives to minimise such risks:

- Special ALCO meetings were arranged on need basis with the input of the Risk Management unit in relation to key measures such as repricing of the Asset book and Liability book, reducing the Bank's forex exposure, monitoring of key deposit withdrawals, etc., according to the turbulent market conditions existed.
- Constant analysis of deposit maturity profile was done, especially deposits maturing in shorter term (e.g. next 1 month, 1-3 months & 3-6 months) and assesses the liquidity position.
- During the year, a comprehensive review was carried out and interbank counter party limits were adjusted appropriately to minimise the possible counterparty credit risks.
- Close monitoring was done in relation to net cash inflows & outflows together with the relevant liquidity ratios such as SLAR & LCR.
- Constant monitoring of the funding and recovery plan triggers were made during the year.
- Middle office also carried out frequent monitoring of Interest Rate Risk using a statistical VaR approach.

Operational Risk

- Constant monitoring of internal and external fraud attempts and appropriate controls have been introduced to avoid similar issues in future, where appropriate.
- Close monitoring of all Key Risk Indicators (KRIs) to initiate timely action if any deteriorating trend is observed.

Information Security Risk

- Implementation of latest technology and tools to enhance security measures in the digital business environment.

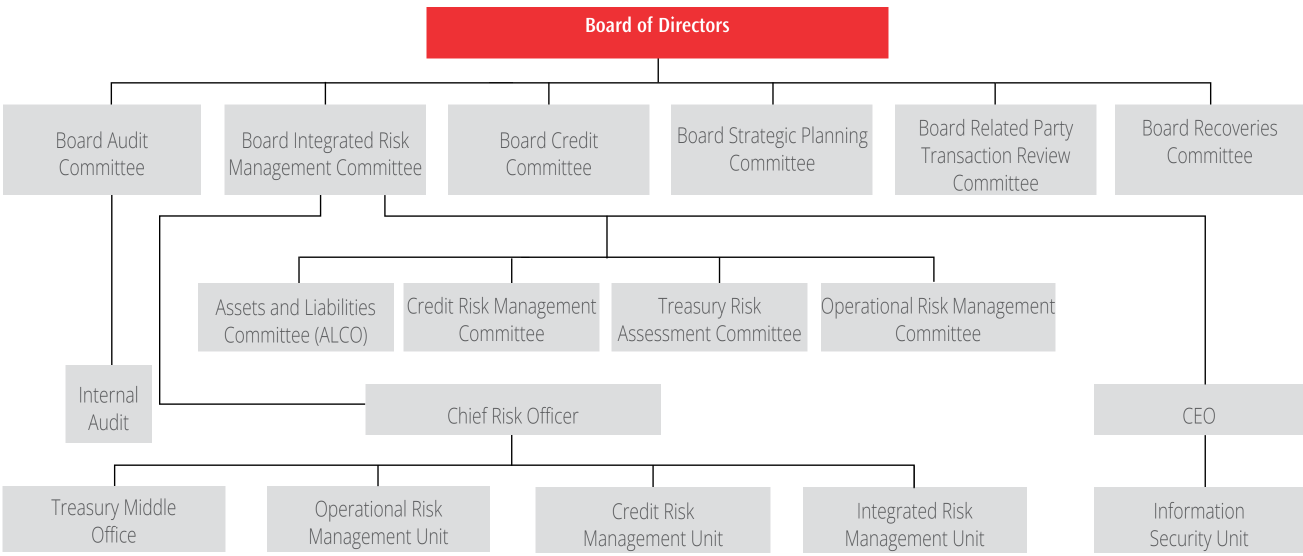
Vision and Culture

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 the 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 when the agreed strategies are implemented.

In addition to the use of formal controls and high-quality risk reporting, the Bank ensures an 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, e-learning portals 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 MD/CEO and comprises senior management from the credit related function of the Bank.

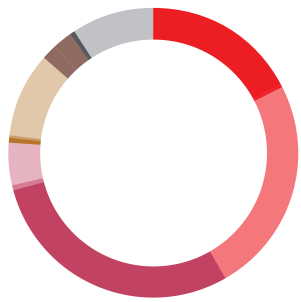
Credit Concentration

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

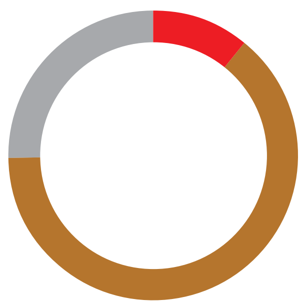
The Bank's sector concentration is in par with the widely-accepted norms, risk appetite and regulatory requirements directed by the regulator. Exposure to each sector is closely monitored by the Board Integrated Risk Management Committee against the predetermined limits. Exposures which exceed the predetermined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

Sector Wise Concentration



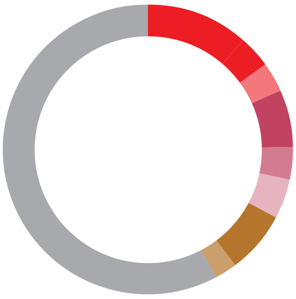
Agriculture, Forestry & Fishing	17.26%
Arts, Entertainment & Recreation	0.37%
Construction & Infrastructure Development	24.29%
Consumption	29.13%
Education	0.53%
Financial Services	4.77%
Health Care, Social Services & Support Services	0.42%
Information Technology & Communication Services	0.18%
Manufacturing	9.59%
Professional, Scientific & Technical Activities	1.76%
Tourism	2.07%
Transportation & Storage	0.51%
Wholesale & Retail Trade	9.12%

Segment Wise Concentration



Corporate	11.01%
Retail	63.86%
SME	25.13%

Geographical Concentration



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 the Bank's 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

Apart from the standard Bloomberg VaR computation, the Bank also calculates an interest rate VaR for the entire Bank using a statistical approach.

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.

Middle Office conducted its own internal stress test, which explored the potential impacts of key vulnerabilities to which the Bank is exposed. The internal stress test considered the impacts of various risk scenarios across key risk types and on capital resources. The results of the internal stress test were shared with Senior Management and BIRMC. Middle Office also monitors macroeconomic risks.

The Bank adopts procedures and controls based on an assessment of the potential impacts on its portfolios.

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, net stable funding 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 the committee. The committee meets based on specific requirements 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.

TMO continued to focus on improving the quality and timeliness of its monitoring activities. It monitors regulatory and wider industry developments closely and engage with regulators, as appropriate, to help ensure new regulatory requirements are implemented effectively and in a timely way, adjusting our policies, procedures and relevant controls as required. The Bank continues to actively review and develop its risk management framework and enhance its approach to managing risk.

Recovery Plan (RCP)

The Bank has Its Board approved Recovery Plan as the tool to guide the Bank to recovery at a time when it is in a distressed scenario in an orderly manner. Recovery plan identifies credible options to survive a range of severe but plausible stressed scenarios. Plan covers the key elements such as scope, what critical functions & critical shared services bank should operate, recovery triggers & recovery options, responsibilities of Board of Directors and Management, availability of management information, communication planning and reporting requirements. The Monitoring of recovery indicators are done by Treasury Middle Office. Also, it reviews the plan on an annual basis. The Bank is committed to further developing its recovery and resolution capabilities in line with the regulatory developments.

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. However, the mentioned definition includes risk resulting from legal aspects and excludes the risk resulting strategic and reputational aspects.

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

- Personal Accountability of Employees

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

- Efficient Allocation and Optimum Usage of Bank's Capital

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

- Brand Image of the Bank

Better operational risk management will enhance and improve the Bank's ratings, share price and market reputation since industry analysts perceive it as long-term stability and performance of the Bank.

Philosophy and Principles

The following philosophy and principles govern the management of operational risk in the Bank:

- The internal operating policies of the Bank's Operational Risk

Management Framework are outlined in the Operational Risk Management Policy which is approved by the Board of Directors and annually reviewed and updated.

- Currently the Bank is contemplating to migrate to advanced approaches in calculation of capital charge for operational risk.
- The Bank's Operational Risk Management practices are subject to independent review by internal and external auditors.
- The Bank has a dedicated Operational Risk Management Unit to manage and monitor operational risks and controls, ensure loss data is accurately recorded and reported internally as well as externally. Operational risk related incidents are closely investigated and recommendations given on required controls to avoid similar operational risk related incidents in the future.
- Operational Risk Management Unit has introduced an automated incident reporting system during the period under review to escalate operational risk Incidents timely manner in order to take appropriate actions effectively and efficiently to avoid or mitigate similar incidents in future.

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-Integrated 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 drills are conducted at least twice a year for Core Banking and other critical systems to ensure the business resilience in an event of a major system disruption. BCP policy has been defined clearly establishing the responsibilities of all the critical departments to further embed the business continuity culture in the day-to-day work and the Business Impact Analysis of each department of the Bank.

List of Outsourced Activities are as follows;

Deliverables/Services	Basis of the Payment
Cards Personalisation	Per Card
World Master Card Personalisation	Per Card
Debt collection, Skip tracing, Asset verification	Based on the output volumes
All cash sorting and transport	Cash Transport - Per agreed rate according to the distance Cash Counting - Per bundle
Archival of Documents	Per Carton
Processing Salary and benefits	Monthly Fee
Card Management System	Per Card
Legal Services For Recovery Matters	Per Case
Travel Cards	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.

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 centralised Outsourced Activities Monitoring Unit, to ensure that all the required documents of outsource service providers are in place and to monitor complaints relating to Outsource Service Providers.

Information and Cyber Security Risk

The Bank identifies that the information security risk comprises the impacts to business functions and its stakeholders that could occur due to the threats and vulnerabilities associated with the operation and use of information systems and the environments in which those systems are operating. Information security has significant impact on the delivery of critical banking services and meeting regulatory and compliance requirements. Information security risk overlaps with many other types of risk in terms of the kinds of impact that might result from the occurrence of a security-related incident. It is also influenced by factors attributed to other categories of risk, including strategic, product development, project management, legal, reputation, and compliance risk.

The Bank has identified the requirement of systematic application of policies, procedures, and practices to the task of establishing the context, identifying, analysing, evaluating, treating, monitoring, and communicating information security risks to all its stakeholders. The Bank has comprehensive, the Board approved Information Security Policy which defines all the security requirements to be fulfilled by all internal and external stakeholders as per the Information Security Management System (ISMS). To make the policies and procedures as living documents within the context, the Information Security Unit (ISU) has carried out periodic policy reviews, introduced new policy domains according to the current requirements, obtain the Board of Director's approval and communicate changes to the all stakeholders on time.

The Bank always considers information security risk management as an ongoing process of discovering, correcting, and preventing security problems. The primary means of mitigating information security-related risk is through the selection, implementation, maintenance, and continuous monitoring of preventive, detective, and corrective security controls to protect information assets from compromise or to limit the damage to the Bank should a compromise occur. The Bank uses Security Information and Event Management (SIEM) system for continuous monitoring of information security events. Further, the Bank has implemented a Managed Security Operations Centre (MSOC). A SOC is a centralised function within an organisation that employs people, processes, and technology to continuously monitor in real-time and improve an organisation's security posture while preventing, detecting, analysing, and responding to cyber security incidents.

The Bank is in line with the controls of 'Baseline Security Standards' (BSS) for most of its banking functions as an effective risk control mechanism. The Bank's information security risk management status presents to the BIRMC in a quarterly manner by the Information Security Officer (ISO) through the information security dashboard. The information security dashboard is the monitoring tool of the current and desired posture of information security in the Bank. It allows the Bank to assess, identify, and modify its overall security posture. It also enables security, operations, organisational leadership, and other personnel to collaborate and view the entire Bank from an attacker's perspective.

Comprehensive security risk management could also determine the value of the various types of data generated and stored across the Bank. To accurately assess the risk of data loss, classified the internal data, and enforced the prevention rules in the Classification tool (Boldon James) as a control mechanism.

The Management has identified the importance of having information security knowledge among all the staff for day-to-day banking operations. As a result, the Bank has continually deployed an information security e-learning module for PABC staff during the financial year. The course consists of an exam and a certificate at the end of the successful completion.

The Bank has identified that the Vulnerability Assessment (VA) as an important subset of the risk assessment process. The Bank has initiated VAs in many key points, including after change(s) to a system, new system prior to go live and periodic assessments to identify threats, etc. The VAs scheduled to be conducted by expertise internal staff as well as by external expertise parties when required and as a managed service.

When it comes to cyber security, alerts are one of the most important information sources. The Bank has registered for many trusted alert sources, including FinCSIRT and treated alerts are the notifications that aim to inform about serious security incidents or threats regarding system and network. Alerts are crucial for internal security professionals to interfere with various security incidents immediately and contain any threats before they cause serious problems.

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.

Leading with skillful *precision*

The centuries-old art of gemstone faceting is a timeless example of how our service craftsmanship is delivered with the same meticulous precision to all our stakeholders.

GOVERNANCE

Corporate Governance Report

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 109 to 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 and 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

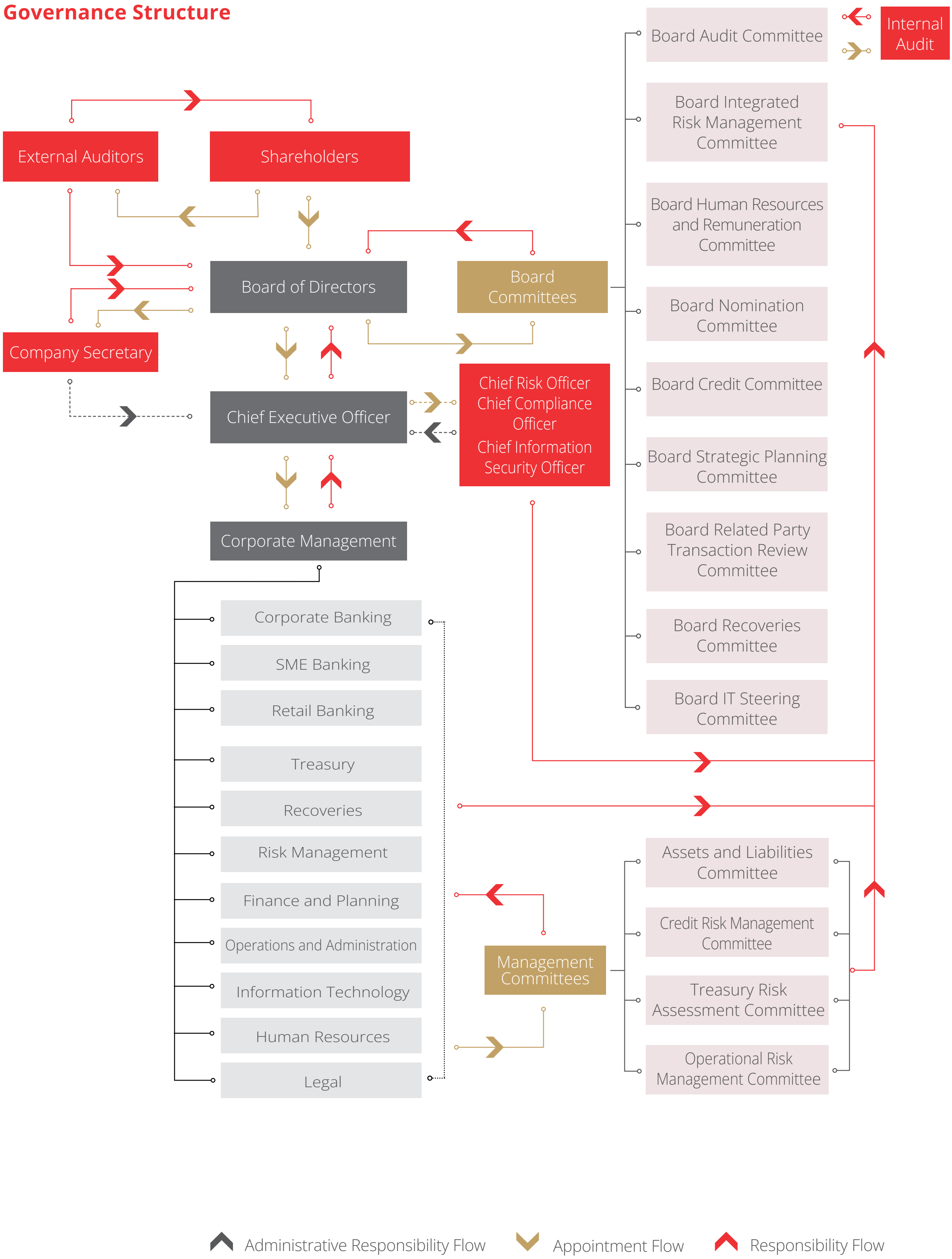
- Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks as amended subsequently
- Banking Act No. 30 of 1988 and Directions, Guidelines and Circulars issued under Banking Act
- Companies Act No. 07 of 2007 and amendments there to
- Code of Best Practice on Related Party Transactions issued by Securities and Exchange Commission of Sri Lanka
- Continuing Listing Requirements issued by Colombo Stock Exchange
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 as amended subsequently

Governance

- Articles of Association of the Bank
- Code of Business Conduct & Ethics
- Organisational Structure
- Terms of Reference and Charters of Board and Management Committees
- Operational Policies, Guidelines and Manuals
- Risk Management Policies and Procedures
- Internal Control Procedures and Processes
- Anti-Money Laundering/Compliance Policies

Internal

Governance Structure



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 2022 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 108 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 has strengthened 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 for 2023-2026. 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.
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 2023-2026 period is in place. The business strategy is reviewed on need basis with updates. The Board approved the annual budget has been derived from the Bank's strategic plan. Risk Management framework and mechanisms set in line with the Strategic Plan also approved by the Board. Measurable goals have been set and monthly/quarterly performance is measured against the set goals. These are reviewed on an annual basis and revised on a need basis.

Section	Principle	Degree of Compliance	Remarks
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 Board approved Shareholder Communication Policy addressing the concerns of the shareholders is in place. Further a customer complaint handling procedure is in place to address the concerns of borrowers and depositors. The customer charter has been disseminated to all customers contact points of the Bank. The Whistle Blowing Policy and Grievance handling procedures are in place for staff to voice their concerns.
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.
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.

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
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.
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.

Section	Principle	Degree of Compliance	Remarks
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	16 Board Meetings were held during the year and the regulation has been complied accordingly. Obtaining Board consent through the Circulation of Papers have been avoided as far as possible unless otherwise it was on an urgent matter. The attendance of the Board and Board Committee meetings are given on page 105
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.
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 regular Board Meeting providing all Directors an opportunity to attend.

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
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 on page 105.
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 Board resolutions	Complied with	The Board minutes contain a summary of data and information used by the Board in its deliberations, decisions and Board resolutions. The Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations. The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted too are contained in the Board minutes. The Minutes and the Board Papers are maintained to provide the details stipulated.
3(1)(xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request to seek independent professional advice in appropriate circumstances at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	Complied with	An approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.

Section	Principle	Degree of Compliance	Remarks
3(1)(xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or Related Parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board Meeting, where Independent Non-Executive Directors who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board Resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board Meeting.	Complied with	The Board procedure includes provisions to manage conflicts of interests of Directors. The Bank follows guidelines issued by the Director Bank Supervision with regard to Related Party Transactions and Directors abstain 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 2022. 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.
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 complied with the Capital Adequacy Ratio requirements stipulated by the Central Bank of Sri Lanka and other prudential grounds throughout the year ended 31st December 2022.
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 105 of Annual Report.

Section	Principle	Degree of Compliance	Remarks
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	The Board composition was in compliance with the requirement throughout the year 2022.
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. No Director served the Board for more than nine years during the year.
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	The number of Executive Directors has not exceeded the specified threshold of one-third of the total number of directors at any given time during the year 2022. Directors of the Board as identified on page 105.
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	The Bank complies with the prescribed requirement of Independent Non-Executive Directors throughout the year 2022. The Board as identified on page 105.
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.
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 2022.
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 2022.

Section	Principle	Degree of Compliance	Remarks
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 2022.
e.	represents a specific stakeholder of the Bank.	Complied with	One Director 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.
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	No requirement has arisen during the year under review.
3(2)(vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment 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.

Section	Principle	Degree of Compliance	Remarks
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 105 "Directors' Composition during the Year -2022".
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	One Director was appointed to fill a casual vacancy during the period until the Annual General Meeting and will be subject to election by shareholders at the Annual General Meeting to be held in March 2023.
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.

Section	Principle	Degree of Compliance	Remarks
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 holds 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 2022.
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 any matters 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.

Section	Principle	Degree of Compliance	Remarks
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 a Non-Executive, Non-Independent Director, Mr. Nihal Kekulawala, Non-Executive, Independent Director appointed as the 'Senior Director' due to the retirement of Mr. Mohan Abeynaike, who acted as the Senior director until his retirement. Required Terms of Reference have been approved by the Board.
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, considering 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.

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
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.
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 Managing Director / 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 109 to 120.

Section	Principle	Degree of Compliance	Remarks
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 present Chairman of the Audit Committee is a Non-Executive, Independent Director and a Fellow of the Institute of Chartered Accountants of UK and Sri Lanka whose qualifications and experience are disclosed on page 19 of the Annual Report. The immediate past chairman of the committee who retired from bank during the year 2022 is also a Non-Executive Independent Director and a Fellow of the Institute of Chartered Accountants of Sri Lanka.
b.	All members of the Committee shall be Non-Executive Directors.	Complied with	All four members of the Committee are Non-Executive Directors.
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 follow 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 in 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 and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with	The Committee has obtained representations from the External 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.

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 judgments 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. Their view focuses on the following; - Major judgemental 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/Investigation reports/ Follow up status reports/Continuous Monitoring Assessment exceptions 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 all internal investigations performed by Internal Audit and management's responses/actions thereto are considered by the Committee and also minuted.

Section	Principle	Degree of Compliance	Remarks
l.	The Chief Financial Officer, the Chief Internal Auditors and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present	Complied with	The Chief Financial Officer, the Deputy General Manager- Internal Audit and representatives of External Auditors attends monthly committee meetings. The MD/CEO and other Corporate and Senior Management personnel attend meetings upon invitation. The Committee met with External Auditors independently without the executive management being present on three occasions during the year.
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 13 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 109 to 111. (ii) Details of attendance by individual Directors on page 105 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. The relevant records and Minutes of the Committee Meetings are maintained at Internal Audit Department.

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 and any matters which are of concern is referred and timely investigated via Internal Audit. 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 on 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.

Section	Principle	Degree of Compliance	Remarks
3(6)(iv)	Nomination Committee		
a.	The Committee shall implement a procedure to select/appoint new Directors, Chief Executive Officer and Key Management Personnel.	Complied with	Procedures for the selection/appointment of the Directors are in place. Procedures for the selection/appointment of the Chief Executive Officer and Key Management Personnel are also in place.
b.	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, considering 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 positions of CEO and Key Management Personnel 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 the 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 these 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 the majority of Directors are Independent. The MD/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 Managing Director/Chief Executive Officer, the Chief Risk Officer and the Chief Compliance Officer. The Committee is supported by Senior Manager-Treasury Middle Office, Manager-Integrated Risk, Manager Credit Risk, and 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 the pre determined pre determined quantitative and qualitative risk limits. The Committee carries out detailed review on the scope and the performance / effectiveness of all Management committees, which are coming under its purview, at least annually.
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.

Section	Principle	Degree of Compliance	Remarks
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with	The Committee had four meetings during the year and deliberations 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.
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 each Committee meeting is submitted to Board of Directors' 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.

Section	Principle	Degree of Compliance	Remarks
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.		
d.	Providing services to or receiving services from a Related-Party without an evaluation procedure.		

Section	Principle	Degree of Compliance	Remarks
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.

Section	Principle	Degree of Compliance	Remarks
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.		
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.		

Section	Principle	Degree of Compliance	Remarks
3(7)(vi)	A Bank shall not grant any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	Complied With	No accommodation has been granted to any employee of the Bank on more favourable terms unless under general staff loan scheme applicable for all employees of the Bank.
3(7)(vii)	No accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied With	A process is in place. No such instances noted during the period under review.
3(8)	**Disclosures**		
3(8)(i) a. b.	The Board shall ensure that: 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 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.
3(8)(ii)	The Board has made the following minimum disclosures in the Annual Report:		
a.	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Complied with	A statement to this effect is included in the following; (i) Annual Report of the Board of Directors' on the Affairs of the Bank on pages 121 to 123. (ii) Directors' Responsibility for financial Reporting on page 126.

<table>
<tr><th>Section</th><th>Principle</th><th>Degree of Compliance</th><th>Remarks</th></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 106 to 107.</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 on page 108.</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 19 to 21 under profiles of the Directors.

The aggregate value of Directors' transactions with the Bank has been disclosed in Note No 44.4 to the Financial Statements on page 230.

The aggregate value of the remuneration paid (salaries, fees and benefits) to the Board of Directors (including CEO) is disclosed in Note No 44.3 to the Financial Statements on page 230.</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>1.60</td><td>0.01</td></tr>
<tr><td>KMP and Close Family Members</td><td>66.29</td><td>0.33</td></tr>
<tr><td>Entities Controlled by Directors, Shareholder owing a Material Interest and Close Family Members</td><td>10,456.58</td><td>52.67</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. 202.20 million. Retirement Benefits - Nil The aggregate value of transactions by Key Management Personnel with the Bank as at the year end are as follows; Loans and Advances - Rs. 66.97 million. Deposits - Rs. 126.79 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 76 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.

Attendance of the Directors During the Year - 2022

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
S B Rangamuwa	16	16	-	-	12	12	04	04	03	03	-	-	02	02	04	04	12	12	04	03
Aravinda Perera	16	15	-	-	12	11	-	-	01	01	07	07	02	02	-	-	12	10	04	04
Nihal Kekulawala	16	16	13	13	07	07	04	04	03	03	-	-	02	02	04	04	-	-	-	-
B D A Perera	16	16	13	13	07	07	-	-	-	-	07	07	-	-	-	-	12	12	04	04
Sandra Walgama	15	15	05	05	11	11	01	01	-	-	-	-	01	01	-	-	10	10	-	-
Chethiya Umagiliya	15	15	-	-	11	11	-	-	-	-	06	06	02	02	-	-	-	-	-	-
Hiroyuki Ota	02	02	-	-	-	-	-	-	-	-	-	-	-	-	01	01	-	-	-	-
Nimal Tillekeratne	16	16	13	10	12	11	04	04	03	03	07	06	02	02	04	04	12	11	04	04
Toyohiko Murakami	04	04	04	04	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mohan Abeynaike	09	09	08	08	-	-	02	02	02	02	05	05	01	01	02	02	-	-	01	01

Directors' Composition During the Year - 2022

Name of the Director	Category
S B Rangamuwa	Non-Executive, Non-Independent Director
Aravinda Perera	Non-Executive, Non-Independent Director
Nihal Kekulawala	Non-Executive, Independent Director
B D A Perera	Non-Executive, Independent Director
Sandra Walgama	Non-Executive, Independent Director
Chethiya Umagiliya	Non-Executive, Independent Director
Hiroyuki Ota	Non-Executive, Non-Independent Director
Nimal Tillekeratne	Managing Director/Chief Executive Officer
Toyohiko Murakami	Non-Executive, Non-Independent Director (Completed 9 years and retired in April, 2022)
Mohan Abeynaike	Non-Executive, Independent Director (Retired in July, 2022 reaching 70 years of the age)

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 to highlight 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 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 a 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 the 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 Board's 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 island-wide 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. Banks 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 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 system. They also review the internal audit function 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 109 to 111
- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. 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 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 recommendations made by the External Auditors in 2022 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 2022 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 108 of this Annual Report.

By Order of the Board

Nihal Kekulawala
Chairman
Board Audit Committee

S B Rangamuwa
Chairman

Nimal Tillekeratne
Managing Director/Chief Executive Officer

Colombo, Sri Lanka
17th February 2023

External Auditors' Assurance Report on Bank's Internal Control Over Financial Reporting

Ernst & Young
Chartered Accountants
201, De Saram Place
P.O. Box 101
Colombo 10, Sri Lanka

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysl@lk.ey.com
ey.com

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 106 and 107 of the Annual Report for the year ended 31st December 2022.

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 Chartered 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.

17 February 2023
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.

Nihal Kekulawala
Chairman of the Committee
Non-Executive, Independent Director- effective from 29th July 2022

B D A Perera
Non-Executive, Independent Director

Sandra Walgama
Non-Executive, Independent Director - appointed to Board Audit Committee with effect from 29th July 2022.

The Committee wishes to thank Mr. Mohan Abeynaike, the immediate past chairman of the committee Mr. Toyohiko Murakami, former member of the committee who retired during the year for their contribution and deliberations made while they served at the Board Audit Committee.

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

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 judgments 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 Bank's internal control system.
- Make recommendations to the Board about 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 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.

Secretary

The Deputy General Manager - Internal Audit functioned as the secretary to the Committee.

Meetings

The Committee held 13 meetings during the period under review. During the year committee continued its virtual meetings a practice that began during the Covid-19 pandemic.

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

The Committee has met with the external auditors on three occasions without the presence of MD/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 before approval by the Board,while giving attention to the key economic and political developments and their impacts to the Financial Statement reporting process.
- Assesses the future impacts of the capital requirements and remedial measures to be taken.
- The committee discussed with External Auditors, MD/CEO, CFO the possible implications and the sectors which could be impacted by the new Central Bank Regulations

on Moratoriums on the financial reporting.

- Assessed the tax regulations changes etc.

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 fuel crisis faced in the middle part of the year along with long power cuts led the Bank to operate for restricted hours which impeded on carrying out the Audits as expected, nevertheless the Committee regularly reviewed and monitored the internal audit coverage of the annual audit plan and ensured that the functioning of the existing control environment. The Bank's Internal Audit continued its continuous monitoring activities using Computer Aided Audit Techniques, increasing proactive monitoring and review. The results of these were shared with the Management and Board Audit Committee at monthly meetings as a measure to strengthen the control environment of the Bank. Further, during this period internal audit conducted verifications analysing the trends in financial transactions to identify risk trigger points and identified areas were escalated for immediate management attention and taken up for discussions at Board Audit Committee meetings.

The Committee reviewed and evaluated all internal controls, the findings of the internal audits that were completed, findings from internal investigations, online audit reviews 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 the Internal Audit Department. Periodically the committee assessed the Training & development and resource availability within the 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 MD/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 previous years. 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 5 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 2023, 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;

Nihal Kekulawala
Chairman
Board Audit Committee

Colombo, Sri Lanka
17th February 2023

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
Chairman of the Committee
Non-Executive, Independent Director

S B Rangamuwa
Non-Executive, Non-Independent Director

Sandra Walgama
Non-Executive, Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

In addition to the above members, the Committee comprises of Chief Risk Officer, Chief Compliance Officer, Information Security Officer, Manager II Integrated Risk Management, Officers in Charge of Credit Risk and 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.

Secretary

The Manager II - Integrated Risk Management functions as the Secretary to the Committee.

Meetings

The Committee had 4 meetings during the year. The attendance of committee meeting is given on Page 105 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-today 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 Internal Borrower Risk Rating Module and Risk Based Pricing Methodology in order to have better understanding on the movement of risk profiles of borrowers over the period of time.
- Review of retail product exposure limits taking into consideration of the 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
17th February 2023

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.

S B Rangamuwa
Chairman of the Committee
Non-Executive, Non-Independent Director

Aravinda Perera
Non-Executive, Non-Independent Director

Nihal Kekulawala
Non-Executive, Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

Profiles of the members are given on Pages 19 to 21 of the Annual Report.

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

Secretary

The Company Secretary functions as the Secretary to the Committee.

Meetings

The Committee held 3 meetings during the year. Attendance of the Committee members at each of these meetings are given on Page 105 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) and periodic review and evaluation of the Policy against industry practice.
- The Committee shall decide salaries, allowances, other cash and non-cash benefits and incentives, including annual increments/ terminal benefits/pension rights etc. for the CEO, KMPs and other staff of the Bank.
- 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.
- Reviewing the strategic Human Resource policies of the Bank and recommending same to the Board.

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;

S B Rangamuwa
Chairman
Board Human Resources and Remuneration Committee

Colombo, Sri Lanka
17th February 2023

Board Nomination Committee Report

Composition of the Committee

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

B D A Perera
Chairman of the Committee
Non-Executive, Independent Director

Aravinda Perera
Non-Executive, Non-Independent Director

Chethiya Umagiliya
Non-Executive, Independent Director

Profiles of the members are given on Pages 19 to 21 of the Annual Report.

The Managing Director/Chief Executive Officer attends Meetings by invitation.

Secretary

The Company Secretary functions as the Secretary to the Committee.

Meetings

During the year 2022, the committee held 7 meetings. Attendance of the Committee members at each of these meetings is given on Page 105 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 has adopted a Charter which is reviewed as and when required. 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 and officers in the immediate two layers below the level of CEO in the organisational structure are fit and proper persons to hold office as specified in the criteria as set out in the statutes.
- 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. The minimum number of Directors in the Committee shall be 3 and the maximum shall be 5.
- All promotees of Senior Manager and above to be interviewed by the Nomination Committee, prior to the promotions.
- All external recruits of Manager and above to be interviewed by the Nomination Committee, prior to recruiting.

On behalf of the Board Nomination Committee;

B D A Perera
Chairman
Board Nomination Committee

Colombo, Sri Lanka
17th February 2023

Board Credit Committee Report

Composition of the Committee

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

S B Rangamuwa
Chairman of the Committee
Non-Executive, Non-Independent Director

Aravinda Perera
Non-Executive, Non-Independent Director

Sandra Walgama
Non-Executive, Independent Director

Chethiya Umagiliya
Non-Executive, Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

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

Responsibilities

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 and 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 the Bank can have adequate controls in the lending book.
- Provide guidance and directives for credit origination.

Secretary

The Manager Credit Risk functioned as the Secretary to the Committee during the year.

Meetings

The Committee had 12 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 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 relating to Related Parties to the Board Related Party Transaction Review Committee or Board of Directors for which the Board approval is required as per the Bank's credit policy and regulatory guidelines.
- Ensure credit risk exposures are kept within the risk appetite in order to maximise the Bank's risk adjusted rate of return.
- Monitor the Bank's credit portfolio quality, review periodic credit portfolio reports and assess the performance of the lending book on an on going basis.
- Review new lending products from a credit risk management perspective with appropriate controls to maintain the quality of the portfolio.
- Sanction credit proposals 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;

S B Rangamuwa
Chairman
Board Credit Committee

Colombo, Sri Lanka
17th February 2023

Board Strategic Planning Committee Report

The Board Strategic Planning Committee of the Bank was established to assist the Board in setting strategic direction and defining the bank objectives to reach greater heights in the banking industry. Despite the extreme volatility in the business environment, the Board understands that effective planning is of paramount importance in steering the Bank towards its stated objectives. This is because the Board is well aware that excellent planning allows the Bank to align the objectives of the Bank with that of its staff to create involvement, ownership and effective execution with minimum supervision.

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

Composition of the Committee

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

Aravinda Perera
Chairman of the Committee
Non-Executive, Non-Independent Director

Nihal Kekulawala
Non-Executive, Independent Director

S B Rangamuwa
Non-Executive, Non-Independent Director

Chethiya Umagiliya
Non-Executive, Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

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 two times during the year. The attendance of the Committee members at each of these meetings are given on page 105 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 KPIs.

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

e) Creating a risk based culture and resilience to environmental changes: To 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, regulatory requirements and make recommendations to the Board of Directors

Performance

The Committee reviewed the Bank's performance against the strategic plan and the budget for the year 2022 and discussed reasons for substantial deviations and directed Management for remedial actions.

Annual Budget for the year 2023 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 make necessary recommendations to the Board of Directors 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;

Aravinda Perera
Chairman
Board Strategic Planning Committee

Colombo, Sri Lanka
17th February 2023

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 Independent Directors of the Board.

Composition of the Committee

The Board Related Party Transaction Review Committee comprises of following Directors at the year end.

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

S B Rangamuwa
Non-Executive, Non-Independent Director

Hiroyuki Ota
Non-Executive, Non-Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive 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

The Chief Compliance Officer functions as the secretary to the Committee.

Meetings

During the year 2022 the Committee held 4 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 following;

- 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, the 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 the 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;

Nihal Kekulawala
Chairman
Board Related Party Transaction Review Committee

Colombo, Sri Lanka,
17th February 2023

Board Recoveries Committee Report

Composition of the Committee

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

S B Rangamuwa
Chairman of the Committee
Non-Executive, Non-Independent Director

Aravinda Perera
Non-Executive, Non-Independent Director

B D A Perera
Non-Executive, Independent Director

Sandra Walgama
Non-Executive, Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

DGM Recoveries and Chief Risk Officer are members of the Committee.

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

The Board Recoveries Committee was set up to have top to bottom approach in minimising Non-Performing Advances (NPA) 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 and 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 and 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 and 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 meetings;

1. Non-Performing Advances Management.
2. Margin Trading Division Status Report.
3. Watch list of accounts.
4. Statement of Non-Performing advances.

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

Secretary

The Manager - Credit Risk acted as the Secretary to the Committee during the year.

Meetings

The Committee had 12 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 Managers 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 are not fallen within the risk appetite of the Bank.
- Ensure the compliance of 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;

S B Rangamuwa
Chairman
Board Recoveries Committee

Colombo, Sri Lanka
17th February 2023

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 of the Committee
Non-Executive, Non-Independent Director

S B Rangamuwa
Non-Executive, Non-Independent Director

B D A Perera
Non-Executive, Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

Profiles of the members are given on Pages 19 to 21 of the Annual Report.

Secretary

The Company Secretary functions as the Secretary to the Committee.

Meetings

Board Information Technology Steering Committee meetings are conducted quarterly or more frequently if necessary. During the year 2022, the Committee held 4 meetings. Attendance of the Committee members at the meetings are on Page 105 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 provides 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 seeks independent advice on matters which assists discharging of its responsibilities.

On behalf of the Board Information Technology Steering Committee;

Aravinda Perera
Chairman
Board Information Technology Steering Committee

Colombo, Sri Lanka
17th February 2023

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 2022.

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 17th of February 2023.

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:

	2022 Rs. 000	2021 Rs. 000
Profit Before Tax	649,853	4,033,653
Income Tax Reversal/(Expense)	1,352,087	(958,295)
Profit for the Year	2,001,940	3,075,358
Other Comprehensive Income	(30,872)	27,671
Retained Profit Brought Forward	13,137,897	10,179,069
Transfer to Reserve Fund	(100,097)	(153,768)
Realisation of Revaluation Reserve	9,657	9,567
Unappropriated Profit to be Carried Forward	15,018,525	13,137,897

Financial Statements

The Financial Statements of the Bank are given on pages 136 to 235 of this Annual Report.

Income

The Bank's main income consists of interest on loans and advances, income/losses from investments and other fee based income. The summarised income could be shown between the years as:

	2022 Rs. 000	2021 Rs. 000
Gross Income	25,813,144	21,103,534

Shareholders' Funds and Reserves

The Bank's Total Reserves as at 31st December 2022 stood at Rs.17,002,295 (000'). This comprises Statutory Reserve Fund of Rs.894,990 (000') Revaluation Reserve of Rs.1,088,780 (000') and Retained Earnings of Rs.15,018,525 (000'). The movement in Revaluation Reserve and Statutory Reserve Fund are shown in Note 34 and 35 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 155.

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.

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 01st January 2022 to date are given below and the 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

S B Rangamuwa	Non-Executive, Non-Independent Director since August, 2014. Appointed as the Deputy Chairman in January, 2018 and was appointed as the Chairman in May, 2021.
Aravinda Perera	Non-Executive, Non-Independent Director since August 2017. Appointed as the Deputy Chairman in May 2021.
Nihal Kekulawala	Non-Executive, Independent Director since August 2016. Appointed as the Senior Director in July 2022.
B D A Perera	Non-Executive, Independent Director since April 2021.
Sandra Walgama	Non-Executive, Independent Director since January 2022.
Chethiya Umagiliya	Non-Executive, Independent Director since January 2022.
Hiroyuki Ota	Non-Executive, Non-Independent Director since November 2022.
Nimal Tillekeratne	Director/Chief Executive Officer since April 2017. Appointed as the Managing Director/ Chief Executive Officer in March, 2021.
Toyohiko Murakami	Non-Executive, Non-Independent Director since April 2013. Completed 9 years and retired in April, 2022.
Mohan Abeynaike	Non-Executive, Independent Director since October 2014. Appointed as the Senior Director in February 2015. Retired in July 2022 upon reaching 70 years of the age.

Re-elections

In terms of Article No's. 82 and 83 of the Articles of the Association of the Bank, B D A Perera and Sandra Walgama 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, Hiroyuki Ota being eligible offer himself for re-election, on an unanimous recommendation by the Board of Directors.

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 01.01.2022	No. of Shares As at 31.12.2022
S B Rangamuwa	335,000	365,000
Aravinda Perera	-	-
Nihal Kekulawala	-	-
B D A Perera	-	-
Sandra Walgama	-	-
Chethiya Umagiliya	-	-
Hiroyuki Ota	-	-
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. 5,161 (000').

Stated Capital

The Stated Capital of the Bank is Rs. 3,614,253 (000'). The details are given in Note 33 to the Financial Statements.

Internal Controls

The Board of Directors have put in place an effective and comprehensive system of internal controls covering financial operations, compliance and risk management which are required to carry on the business of banking prudently and ensure as far as possible, accuracy and reliability of records.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 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 74 to 105.

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.151,898 (000') during 2022, details of which are given in Note 22 to the Financial Statements. Expenditure on Intangible Asset at cost amounted to Rs. 72,914 (000') during 2022, details of which are given in Note 24 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 2022 was 6,309 compared to 6,374 as at 31st December 2021. The schedule indicating the shareholder's analysis is on pages 261 to 264.

Debentures

The details of all Debentures of the Bank are given in Note 32 to the Financial Statements.

Register of Directors and Secretaries

The Bank maintains a Register of Directors and Secretaries which contains the relevant information of the Board of Directors and the Company Secretary.

Board Committees

In keeping line with the Corporate Governance rules, transparency and accountability, the Board has appointed the required Board Committees and the composition is given in the Governance Report.

New Branches

No branches were opened during the year under review. Total number of branches as at the end of 2022 was 85.

Taxation

The Bank computed the income tax liability for the first six months of the Year of Assessment 2022/23 by applying the income tax rate of 24%. The revised income tax rate of 30% and other amendments in line with the Inland Revenue (Amendment) Act No. 45 of 2022 were considered to calculate the income tax liability of the bank for the second six months of the Year of Assessment 2022/23.

The Bank has provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 (Income Taxes).

The Bank was liable for VAT on Financial Services at 18% during the year 2022 (2021: 15%). Further, the Bank was liable for Crop Insurance Levy at 1% of the Profit after Tax for the year and also the Bank was liable for newly introduced Social Security Contribution Levy (SSCL) at 2.5% w.e.f. 01st October 2022.

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 2023. The Notice of Meeting can be found on page 272.

Going Concern

The Board of Directors after making necessary inquiries and reviews including reviews of the budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and such other matters required to be addressed in the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the CBSL, are satisfied that the Bank has adequate resources to continue operations into the foreseeable future. Accordingly, the Bank continue to adopt the going concern basis in preparing the Financial Statements.

For and on behalf of the Board of Directors;

S B Rangamuwa
Chairman

Aravinda Perera
Deputy Chairman

Nimal Tillekeratne
Managing Director/Chief Executive Officer

N Fernando

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
17th February 2023

Directors' Interest Register

Director's / Company Name	Relationship	Type of Assets / Liabilities / Accommodation	Balance Outstanding as at 31.12.2022 Rs 000
S B Rangamuwa			
Vallibel Finance PLC	Managing Director	Deposits	827,591
		Loans and Advances	687,901
		Off Balance Sheet Accommodation	1,200
Vallibel Properties (Pvt) Ltd	Managing Director	Deposits	101
Aravinda Perera			
Royal Ceramics Lanka PLC	Managing Director	Deposits	1,311
		Loans and Advances	1,676
Singer Finance Lanka PLC	Chairman	Deposits	4,105
Hayleys PLC	Director	Deposits	28
Fentons Ltd	Director	Deposits	1,866
		Loans and Advances	43,485
Rocell Bathware Ltd	Director	Deposits	1,071
Nihal Kekulawala			
Lanka Walltiles PLC	Director	Deposits	502
AMW Capital Leasing and Finance PLC	Director	Deposits	344
Softlogic Holdings PLC	Director	Deposits	379
B D A Perera			
L B Finance PLC	Executive Director	Deposits	1,324,155
		Loans and Advances	1,168,750
Multi Finance PLC	Director	Deposits	30
Chethiya Umagiliya			
Uni Dil Packaging Ltd	Director [Actg. Chairman]	Deposits	19,167
		Loans and Advances	256,429
Uni Dil Packaging Solutions Ltd	Director [Actg. Chairman]	Deposits	10
		Loans and Advances	109,708
Swisstek (Ceylon) PLC	Director	Deposit	8,411
Swisstek Aluminium PLC	Director	Deposit	1,292
Hiroyuki Ota			
Vallibel Finance PLC	Alternate Director	Deposits	827,591
		Loans and Advances	687,901
		Off Balance Sheet Accommodation	1,200
Bansei Royal Resorts Hikkaduwa PLC	Chief Executive Officer	Deposits	67,528
Bansei Holdings LK (Pvt) Ltd	Director	Deposits	419,504
Bansei Securities Capital (Pvt) Ltd	Director	Deposits	29,644
		Repo Borrowings	29,011
Bansei and NWS Consultancy (Pvt) Ltd	Director	Deposits	20
Hikkaduwa Hotel Holdings (Pvt) Ltd	Director	Deposits	10,741
BHLK Investments (Pvt) Ltd	Director	Deposits	73,599
Wakana JPN (Pvt) Ltd	Director	Deposits	39,390
Wakana Holidays (Pvt) Ltd	Director	Deposits	240

Directors' Other Directorships

S B Rangamuwa
Chairman

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

Aravinda Perera
Deputy Chairman

	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
9.	Kosgulana Hydro Company (Private Limited)	Director

Nihal Kekulawala
Senior Director

	Company Name	Position
1.	Lanka Walltiles PLC	Director
2.	Kassapa Leisure Ltd	Director
3.	AMW Capital Leasing and Finance PLC	Director
4.	Imani Holdings (Pvt) Ltd	Director
5.	Lanka Ventures PLC	Director
6.	LVL Energy Fund Ltd	Director
7.	Lanka Ceramics PLC	Director
8.	Softlogic Holdings PLC	Director
9.	Jayscope (Pvt) Ltd	Director

B D A Perera
Director

	Company Name	Position
1.	L B Finance PLC	Executive Director
2.	Multi Finance PLC	Director

Chethiya Umagiliya
Director

	Company Name	Position
1.	Uni Dil Packaging Ltd	Director [Actg. Chairman]
2.	Uni Dil Packaging Solutions Ltd	Director [Actg. Chairman]
3.	Swisstek (Ceylon) PLC	Director
4.	Swisstek Aluminium PLC	Director
5.	The Fortress Resorts PLC	Director

Hiroyuki Ota
Director

	Company Name	Position
1.	Vallibel Finance PLC	Alternate Director
2.	Bansei Royal Resorts Hikkaduwa PLC	Chief Executive Officer
3.	Bansei Holdings LK (Pvt) Ltd	Director
4.	Bansei Securities Capital (Pvt) Ltd	Director
5.	Bansei and NWS Consultancy (Pvt) Ltd	Director
6.	Hikkaduwa Hotel Holdings (Pvt) Ltd	Director
7.	BHLK Investments (Pvt) Ltd	Director
8.	Wakana JPN (Pvt) Ltd	Director
9.	Wakana Holidays (Pvt) Ltd	Director

*The above Directorships are as at 31st December, 2022

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 2022, 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 Managing Director/Chief Executive Officer and the Company Secretary of the Bank on 17th February 2023 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 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 2022 is given on pages 106 & 107 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 108 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

N Fernando

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
17th February 2023

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 2022 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 2022, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 106 and 107 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 108 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
Managing Director/Chief Executive Officer

Suranga Fernando
Chief Financial Officer

Colombo, Sri Lanka
17th February 2023

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.

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 programs 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 Bank's 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 as required.

Mastery of our *craft*

The skill and mastery incorporated into the elaborate workmanship of this carving is akin to the expertise we display when it comes to delivering to, and delighting our stakeholders.

FINANCIAL AND INVESTOR INFORMATION

Financial Calendar

2022	
1st Quarter Unaudited Interim Results 2022	May 2022
2nd Quarter Unaudited Interim Results 2022	August 2022
3rd Quarter Unaudited Interim Results 2022	November 2022
4th Quarter Unaudited Interim Results 2022	February 2023
Annual Report for Year 2022	March 2023
28th Annual General Meeting	March 2023

2023	
1st Quarter Unaudited Interim Results 2023	May 2023
2nd Quarter Unaudited Interim Results 2023	August 2023
3rd Quarter Unaudited Interim Results 2023	November 2023
4th Quarter Unaudited Interim Results 2023	February 2024
Annual Report for Year 2023	March 2024
29th Annual General Meeting	March 2024

Independent Auditors' Report

EY
Building a better working world

Ernst & Young
Chartered Accountants
201, De Saram Place
P.O. Box 101
Colombo 10, Sri Lanka

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysl@lk.ey.com
ey.com

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 31 December 2022, 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 give a true and fair view of the financial position of the Bank as at 31 December 2022, 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 judgment, 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.

Building a better working world

Key Audit Matter

Provision for credit impairment on financial assets carried at amortised cost

Provision for credit impairment on financial assets carried at amortised cost as stated in Notes 19 & 20 respectively is determined by management in accordance with the accounting policies described in Notes 2.9.6.

This was a key audit matter due to the materiality of the reported provision for credit impairment which involved complex calculations; degree of judgements, significance of assumptions and level of estimation uncertainty associated with estimating future cash flows management expects to receive from such financial assets.

Key areas of significant judgements estimates and assumptions used by management in the assessment of the provision for credit impairment included the following;

- management overlays to incorporate the current economic contraction.
- the incorporation of forward-looking information such that expected cash flows reflect current and anticipated future external factors, in the multiple economic scenarios and the probability weighting determined for each of these scenarios.

How our audit addressed the key audit matter

In addressing the adequacy of the provision for credit impairment on financial assets carried at amortised cost, our audit procedures included the following key procedures;

- We assessed the alignment of the Bank's provision for credit impairment computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report.
- We evaluated the internal controls over estimation of credit 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 impairment computation by agreeing details to relevant source documents and accounting records of the Bank.
- In addition to the above, the following procedures were performed:

For loans and advances assessed on an individual basis for impairment:

- We evaluated the reasonableness of credit quality assessments.
- We checked the arithmetical accuracy of the underlying individual impairment calculations.
- We evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on current economic contraction. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries, debt moratoriums and status of recovery actions of the collaterals

For financial assets assessed on a collective basis for impairment:

- We tested the key inputs and the calculations used in the provision for credit impairment.
- We assessed whether judgements, assumptions and estimates used by the Management when estimating future cashflows, in the underlying methodology and the management overlays were reasonable. Our testing included evaluating the reasonableness of forward-looking information used based on available market data, economic scenarios considered, and probability weighting assigned to each of those scenarios.
- We assessed the adequacy of the related financial statement disclosures set out in notes 19, 20 & 38.2.

Key Audit Matter	How our audit addressed the key audit matter
Information Technology (IT) systems and controls over financial reporting Bank's financial reporting process is significantly reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets. Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter.	Our audit procedures included the following key procedures: • We obtained an understanding of the internal control environment of the processes and test checked relevant controls relating to financial reporting and related disclosures. • We identified and test checked relevant controls of IT systems related to the Bank's financial reporting process. • We involved our internal specialised resources to check and evaluate the design and operating effectiveness of IT systems and relevant controls, including those related to user access and change management. • We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the bank and the actions taken to address these risks. • We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations.

Independent Auditors' Report

Other information included in the 2022 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 judgment 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.

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.

17 February 2023
Colombo

Statement of Comprehensive Income

Year ended 31st December	Notes	2022 Rs 000	2021 Rs 000
Profit or Loss			
Gross Income		25,813,144	21,103,534
Interest Income		26,626,159	18,798,301
Interest Expense		(17,170,702)	(9,156,565)
Net Interest Income	4	9,455,457	9,641,736
Fee and Commission Income		1,754,921	1,821,228
Fee and Commission Expenses		(36,112)	(38,295)
Net Fee and Commission Income	5	1,718,809	1,782,933
Net Gains from Trading	6	111,315	92,257
Other Operating Income/(Losses)	7	(2,679,251)	391,748
Total Operating Income		8,606,330	11,908,674
Impairment Charges	8	2,860,555	2,370,452
Net Operating Income		5,745,775	9,538,222
Personnel Expenses	9	1,893,676	2,227,359
Other Operating Expenses	10	2,762,681	2,399,633
Total Operating Expenses		4,656,357	4,626,992
Operating Profit Before VAT on Financial Services		1,089,418	4,911,230
Value Added Tax on Financial Services	11	439,565	877,577
Profit Before Tax		649,853	4,033,653
Income Tax Expense/(Reversal)	12	(1,352,087)	958,295
Profit for the Year		2,001,940	3,075,358
Other Comprehensive Income			
Other Comprehensive Income Not to be Re-classified to Profit or Loss			
Revaluation Surplus on Property, Plant and Equipment		243,809	-
Deferred Tax Effect on Above		(73,142)	-
	34	170,667	-
Actuarial Gains/(Losses) on Defined Benefit Plan	31.1	(44,103)	36,409
Deferred Tax Effect on Above	12.2	13,231	(8,738)
		(30,872)	27,671
Deferred Tax Effect on Revision of Statutory Income Tax Rate	34	(78,695)	53,311
Other Comprehensive Income for the Year, Net of Tax		61,100	80,982
Total Comprehensive Income for the Year		2,063,040	3,156,340
Earnings Per Share - Basic/Diluted (Rs.)	13	4.52	6.95

The Notes to the Financial Statements on pages 140 to 235 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31st December	Notes	2022 Rs 000	2021 Rs 000
Assets			
Cash and Cash Equivalents	14	5,374,284	2,218,092
Balances with Central Bank of Sri Lanka	15	5,308,803	5,038,345
Reverse Repurchase Agreements	16	2,003,276	-
Derivative Financial Instruments	17	-	4,592
Financial Assets at Fair Value through Profit or Loss	18	2,239,757	-
Financial Assets at Amortised Cost			
-Loans and Advances	19	144,148,110	142,369,157
-Debt and Other Instruments	20	40,195,048	34,110,583
Financial Assets at Fair Value through Other Comprehensive Income	21	3,752	3,752
Property, Plant and Equipment	22	2,586,149	2,335,826
Right-of-Use Assets	23	1,593,986	1,377,406
Intangible Assets	24	340,049	320,863
Deferred Tax Assets	12.2	1,759,444	-
Other Assets	25	2,496,454	1,733,054
Total Assets		208,049,112	189,511,670
Liabilities			
Due to Banks	26	1,068,126	3,914,395
Repurchase Agreements	16	40,526	254,154
Derivative Financial Instruments	17	56,097	33
Financial Liabilities at Amortised Cost			
-Due to Depositors	27	162,533,459	146,433,816
-Due to Debt Securities Holders	28	15,876,464	12,978,490
Subordinated Debentures	32	872,839	872,839
Retirement Benefit Obligations	31.2	470,378	376,851
Current Tax Liabilities		1,751,180	1,252,818
Deferred Tax Liabilities	12.2	-	118,401
Other Provisions and Accruals	29	235,888	196,193
Other Liabilities	30	4,527,607	4,560,172
Total Liabilities		187,432,564	170,958,162
Equity			
Stated Capital	33	3,614,253	3,614,253
Retained Earnings		15,018,525	13,137,897
Revaluation Reserve	34	1,088,780	1,006,465
Statutory Reserve Fund	35	894,990	794,893
Total Equity		20,616,548	18,553,508
Total Equity and Liabilities		208,049,112	189,511,670
Commitments and Contingencies	42	37,495,330	37,779,887
Net Asset Value Per Ordinary Share	39	46.58	41.92

The Notes to the Financial Statements on pages 140 to 235 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 is responsible for the preparation and presentation of these Financial Statements. Approved and signed for and on behalf of the Board by;

S B Rangamuwa
Chairman

Aravinda Perera
Deputy Chairman

Nimal Tillekeratne
Managing Director/Chief Executive Officer

Nayantha Fernando
Company Secretary

17th February 2023
Colombo, Sri Lanka

Statement of Changes in Equity

	Notes	Stated Capital	Reserves			Total
		Ordinary Voting Shares	Retained Earnings	Statutory Reserve Fund	Revaluation Reserve	
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 01st January 2021		3,614,253	10,179,069	641,125	962,721	15,397,168
Total Comprehensive Income for the Year						
Profit for the Year		-	3,075,358	-	-	3,075,358
Other Comprehensive Income for the Year	31.1, 12.2 & 34	-	27,671	-	53,311	80,982
Total Comprehensive Income for the Year		-	3,103,029	-	53,311	3,156,340
Other Transactions						
Transfer to Statutory Reserve Fund	35	-	(153,768)	153,768	-	-
Realisation of Revaluation Reserve	34	-	9,567	-	(9,567)	-
Total Other Transactions		-	(144,201)	153,768	(9,567)	-
Balance as at 31st December 2021		3,614,253	13,137,897	794,893	1,006,465	18,553,508
Total Comprehensive Income for the Year						
Profit for the Year		-	2,001,940	-	-	2,001,940
Other Comprehensive Income for the Year	31.1, 12.2 & 34	-	(30,872)	-	91,972	61,100
Total Comprehensive Income for the Year		-	1,971,068	-	91,972	2,063,040
Other Transactions						
Transfer to Statutory Reserve Fund	35	-	(100,097)	100,097	-	-
Realisation of Revaluation Reserve	34	-	9,657	-	(9,657)	-
Total Other Transactions		-	(90,440)	100,097	(9,657)	-
Balance as at 31st December 2022		3,614,253	15,018,525	894,990	1,088,780	20,616,548

The Notes to the Financial Statements on pages 140 to 235 form an integral part of these Financial Statements.

Statement of Cash Flows

Year ended 31st December	Notes	2022 Rs 000	2021 Rs 000
Cash Flows from Operating Activities			
Profit Before Tax		649,853	4,033,653
Adjustments for:			
Other Non-Cash Items included in Profit Before Tax	40.4	3,433,278	2,899,531
Change in Operating Assets	40.2	(16,418,820)	(15,874,951)
Change in Operating Liabilities	40.3	19,370,634	7,170,626
Interest Expense on Subordinated Debentures	4	114,800	114,800
Interest Expense on Lease Liabilities	4	125,773	94,796
Interest Expense on Term Borrowings		1,108,974	789,069
Gratuity Paid	31.2	(40,508)	(40,511)
Income Tax Paid		(166,003)	(527,440)
Net Cash Flows generated from/(used in) Operating Activities		8,177,982	(1,340,427)
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	22.1	(151,898)	(170,202)
Proceeds from Sale of Property, Plant and Equipment		168	231
Purchase of Intangible Assets	24.1	(72,914)	(24,210)
Net Cash Flows used in Investing Activities		(224,644)	(194,181)
Cash Flows from Financing Activities			
Proceeds from Term Borrowings	40.6	-	6,843,767
Repayment of Term Borrowings	40.6	(3,288,829)	(4,796,394)
Interest Paid on Subordinated Debentures	40.6	(114,800)	(114,800)
Interest Paid on Term Borrowings	40.6	(1,042,443)	(801,921)
Repayment of Principal Portion of Lease Liabilities	40.6	(212,750)	(193,160)
Interest Paid on Lease Liabilities	40.6	(125,773)	(94,796)
Net Cash Flows generated from/(used in) Financing Activities		(4,784,595)	842,696
Net Increase/(Decrease) in Cash and Cash Equivalents		3,168,742	(691,912)
Cash and Cash Equivalents as at 01st January	40.1 & 14	2,225,376	2,917,288
Cash and Cash Equivalents as at 31st December	40.1 & 14	5,394,118	2,225,376

The Notes to the Financial Statements on pages 140 to 235 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 06th 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 2022 is 1,403 (2021:1,396). 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, treasury and investment services, 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 & debit cards, tele-banking, internet and SMS banking facilities.

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 2022 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 formats used for preparation and presentation of Financial Statements and the disclosure made therein also comply with the format specified by Central Bank of Sri Lanka.

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. These Financial Statements except for the information on cash flows have been prepared following the accrual basis of accounting.

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 the Board of Directors

The Financial Statements for the year ended 31st December 2022 were authorised for issue by the Board of Directors on 17th February 2023.

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 22 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.

2.4.2 Rounding

Financial Information in Sri Lankan Rupees has been rounded to the nearest thousand ('000) unless indicated otherwise as permitted by LKAS 1 – Presentation of Financial Statements.

2.5 Impact of COVID-19 and Unprecedented Negative Macro-Economic Outlook

The outbreak of COVID-19 has caused disruption to business and economic activities and uncertainty in the global and local economy. Subsequent to the outbreak of COVID-19 in Sri Lanka, the Bank has strictly adhered to the guidelines and directions issued by both the government and the Central Bank of Sri Lanka, when conducting its operations. The Bank has provided reliefs to the affected businesses and individuals in line with the directions issued by the Central Bank of Sri Lanka.

Sri Lankan economy presented signs of recovery from the impact of COVID-19 pandemic during the year 2022. However, it continued to present a negatively impacted unprecedented macro-economic outlook from late March 2022 mainly due to excessive sovereign debt, low foreign exchange reserves, shortages of essential items and inflationary pressures. These factors resulted in the country to impose certain strict restrictions on the imports to preserve foreign reserves to meet the essential import needs to the public. The situation got aggravated when the credit rating of the country was downgraded to 'Default Imminent (C)' with the announcement by the Government of Sri Lanka on external public debt service standstill that would continue until effecting of comprehensive restructuring of external public debt.

These conditions added up to a rapid increase in the inflation rates of the country. The macro-economic challenges could adversely impact on the vulnerable customer segments due to increased cost of living caused by supply chain disruptions and energy crisis. As a control measure, rigorous counter actions such as increase in policy interest rates and floating the Sri Lankan Rupee were introduced by the Government of Sri Lanka to temper the continuously growing inflationary pressure. Therefore, the prevailing macro-economic uncertainty has significantly increased the estimation uncertainty in 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 adverse effects;
- the extent and duration of the expected economic downturn and subsequent recovery. This includes the impacts on credit quality, liquidity, increasing unemployment, rising inflation, drop in consumer spending, reductions in production; and
- the effectiveness of the government, Central Bank of Sri Lanka and the bank induced 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.

2.5.1 Consideration of the Financial Statements and Further Disclosures

The Bank has carefully considered the impact of COVID-19 pandemic and adverse macro-economic conditions in preparing these Financial Statements for the year ended 31st December 2022. The significant accounting estimates are impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurements and assessment of recoverable amounts of non-financial assets. Therefore, the actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis and revisions to estimates are recognised prospectively.

2.5.1.1 On loans and advances

The Bank extended various relief measures for customers impacted by COVID-19 and adverse macro-economic conditions during the year which include loan repayment deferrals (debt moratoriums), restructuring and reschedulement options. These repayment deferral arrangements were deemed to be 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 (if any) were recognised under the interest income of the year. Interest for the payment deferral period has been charged in accordance with the relevant regulatory directives and terms of these modified credit facilities have been endorsed by the relevant borrowers. The details of modified financial assets are given in Note 38.2.6.

2.5.1.2 On expected credit losses

In assessing the forecasted conditions, the Bank continues to incorporate the impact of COVID-19, negative unprecedented macro-economic conditions and the government and other support measures on a reasonable basis. The SLFRS 9 based impairment methodologies and the definition of 'Default' have remained consistent with prior years.

All the relief packages enabled to customers during these challenging times heightened the Bank's credit risk. Furthermore, it was determined that significant depreciation of Sri Lankan Rupee, rising inflation, high interest rates, income tax and other tax hikes, continuation of import restrictions, shortage of essential supplies and the consequential pressure on disposable income levels of general public are some of the other key concerns likely to impact the repayment capacity of individuals and businesses in the medium to short term.

Forward looking adjustments have been determined based on a range of credible economic and industry stress factors, considering the mitigating impacts of various support packages, including loan repayment deferral arrangements. Taking into consideration of the extremely volatile and challenging macro-economic conditions, the impairment provisions recognised as management overlays were further increased during the year.

The Bank also increased its collective impairment provisions during the year by reviewing the macro-economic variables used for the computation of Economic Factor Adjustment (EFA) in line with the latest macro-economic conditions. Further, the management recognised additional impairment provisions through increasing the probability weightage for the worst-case (downside) scenario and reducing the weightages for the best-case (upside) and base-case scenarios (most-likely) in multiple economic scenario adjustment. The Bank continued to examine the individually significant customers including debt moratorium customers and ensured adequate provisions were made in the Financial Statements as required. When assessing the impairment provisions for individually significant customers, several prudent measures such as extending the recovery cash flows, discounting the property values to reflect a more reasonable estimate of the fair value etc. were applied.

The Bank recognised additional impairment provisions on the investments in foreign currency denominated securities of the Government of Sri Lanka, taking into consideration of the sovereign downgrades by international credit rating agencies during the year, announcement made by the Ministry of Finance in April 2022 declaring the external public debt service standstill of the Government of Sri Lanka that would continue until effecting of restructuring of external public debt and challenging macro-economic conditions by applying higher loss rates. The Bank was able to significantly reduce the investments made in Sri Lanka Development Bonds (SLDBs) through either realisation of cash (USD and Rupees) or conversion of maturing SLDBs into Sri Lankan Rupee denominated Treasury Bonds.

The circumstances are unique in that many of the delayed loans were performing prior to COVID-19 and emergence of unprecedented macro-economic circumstances and either continue to perform, or have genuine prospects of recovery once restrictions are eased and economy is back to normal. These 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/segments between stages as per internal assessments. The majority of the loans that were granted repayment deferrals previously returned to their regular non-deferral terms during the year ended 31st December 2022. The details of Management Overlays are given in Note 38.2.7.

2.5.1.3 On 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 and adverse unprecedented macro-economic conditions, 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 and adverse macro-economic conditions.

2.5.1.4 On assessment of recoverable amounts of non-financial assets

The Bank assessed property, plant and equipment, right-of-use assets and other assets for indicators of impairment. A special consideration was given to the impact of COVID-19 and adverse macro-economic conditions, on the assessment of recoverable amounts of non-financial assets. However, no impairment losses were recognised to Profit or Loss to this extent.

2.5.1.5 on events after the reporting date

There remains significant uncertainty regarding how the global COVID-19 pandemic and negative unprecedented macro-economic conditions will evolve, including the duration of it, 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 macro-economic impact of continuous depreciation of Sri Lankan Rupees, rising inflation, high interest rates and tax hikes, continuation of import restrictions, shortage of essential supplies and the consequential pressure on disposable income levels of general public and extension of further government support measures.

The Bank did not identify any subsequent events precipitated by COVID-19 and adverse macro-economic conditions 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 and negative unprecedented macro-economic conditions were identified requiring 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.

2.5.2 Mitigating Actions taken by the Bank

Towards, mitigating this risk, the Bank has taken steps to focus on curtailing the growth of the asset book and promoting a limited lending growth in asset backed short term lending such as Pawning, secured SME lending and high-end Corporate facilities while expediting much needed deposit growth offering competitive rates. In the meantime, the Bank has applied strict credit guidelines to mitigate credit risk, strengthened the collection and recovery process, kept net interest margin at the best possible levels through timely repricing of both assets and liabilities while managing the financial cost of funds at the lowest possible levels and has implemented several cost containment measures to create cost efficient culture within the Bank.

The Bank continuously monitors the impact of the significant deterioration of the macro-economic conditions of the country and the impact of the COVID-19 pandemic and takes necessary actions to manage its impact on the operations and performance of the Bank to ensure the business continuity.

2.6 Presentation of Financial Statements

The Bank presents its Statement of Financial Position broadly in order of liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements .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 41. 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.

2.7 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Financial Statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenue, 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 management has assessed the Bank's 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.

The outbreak of COVID-19 and negative unprecedented macro-economic conditions have caused disruption to business and economic activities and uncertainties in the global and local economy. Therefore, in the assessment of the existence of a material uncertainty, the management took into consideration the existing and anticipated effects of it on the Bank's activities based on all available information about the future that was obtained after the reporting date, up until the date on which the Financial Statements are authorised to issue.

Subsequent to the outbreak of COVID-19 in Sri Lanka and unprecedented macro-economic conditions, the Bank has strictly adhered to the guidelines and directions issued by both the government and the Central Bank of Sri Lanka, when conducting its operations. The Bank has provided reliefs to the affected businesses and individuals in line with the directions issued by the Central Bank of Sri Lanka.

Towards, mitigating the risk of adverse macro-economic conditions, the Bank has taken steps to focus on curtailing the growth of the asset book and promoting a limited lending growth in asset backed short term lending such as Pawning, secured SME lending and high-end Corporate facilities while expediting much needed deposit growth offering competitive rates. In the meantime, the Bank has applied strict credit guidelines to mitigate credit risk, strengthened the collection and recovery process, kept net interest margin at the best possible levels through timely repricing of both assets and liabilities while managing the financial cost of funds at the lowest possible levels and has implemented several cost containment measures to create cost efficient culture within the Bank.

The management has considered the possible downsides that the COVID-19 pandemic and negative extraordinary macro-economic conditions which could impact the business operations of the Bank, in making this assessment. Based on the above proactive measures taken, robust risk management models that are in place, strong capital base and healthy liquidity buffers, the management is confident that the Bank has no impact to its business continuity and expects to manage the above challenges effectively. The Bank continuously monitors the impact of the significant deterioration of the macro-economic conditions of the country and the impact of the COVID-19 pandemic and takes necessary actions to manage its impact on the operations and performance of the Bank. Hence, the management is satisfied itself that the going concern basis is appropriate.

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 36 '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 in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include model inputs such as volatility for discount rates. The fair valuation of financial instruments is described in more detail in Note 37.

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 judgments 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.

In response to unprecedented negative macro-economic conditions and the Bank's expectations of consequential effects, key assumptions used in the calculation of ECL have been revised further during the year. As at the reporting date, the expected effects of adverse macro-economic outlook have been captured as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of prevailing adverse macro-economic conditions.

The fundamental credit model and methodology underneath the Bank's calculation of ECLs have remained consistent with prior years although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to the negative macro-economic outlook. Therefore, the Bank continues to identify the customers showing distress signs in identifying SICR under the individual impairment assessment while under the collective assessment, customers operating in risk elevated risk segments and industries were assessed for Lifetime ECLs under stage 2 and stage 3.

Further, the Bank increased the weightages assigned for worst case scenario while reducing the weightages assigned for base case scenario and best case scenario, in assessing the probability weighted forward looking macro-economic indicators along with management overlays to qualitative indicators relating to forward looking macro-economic environment with the objective of capturing the impact of unprecedented negative macro-economic conditions and uncertainties and volatilities in future outlook on the ECL computation as at the reporting date.

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, 19.5, 19.6, 20.4 and 30.3.

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 assets under SLFRS 13, based on the nature, characteristics and risks of the property. The Bank engages independent professional valuers to determine fair value of land and buildings. When current market prices of similar assets are available, such evidence is considered in estimating fair value 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 22.6.

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 31.

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. Judgment 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

During the year, there were no any new and amended standards and interpretations.

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/(Losses)' 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.

- Fair Value through Other Comprehensive Income (FVOCI), as explained in Notes 2.9.3.4 and 2.9.3.5
- Fair Value through Profit or Loss (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 2.9.3.2and 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, reverse repurchase agreements, 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 account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2.9.3.1.2 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.

The most significant elements of interest within a lending arrangement are typically the consideration forth 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 minimise 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 FVPL

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to a 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 17. Changes in the fair value of derivatives are included in 'Net Gains from Trading' in Profit or Loss.

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 is 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 Other Comprehensive Income (OCI). Interest income and foreign exchange gains & 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 of 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 Effective Interest Rate (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 FVPL

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 30.2.

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. ECLs on undrawn credit commitments are added to the impairment allowances of the respective loan product and disclosed under Note 19.6.

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 ECLs are disclosed in Note 42 and Note 30.3 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 2022 and 2021.

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 Bank'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.

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 38.2.2.5.

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 38.2.2.7.

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 38.2.2.5

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 38.2.2.1). 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 38.2.2.2.
- 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 draw downs on committed facilities and accrued interest from missed payments. The EAD is further explained in Note 38.2.2.3.

- 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 38.2.2.4.

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 38.2.2 and Note 38.2.3. 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 expected 12-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 38.2.2.1), 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:

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 negative macro-economic outlook

In assessing expected credit losses, the Bank incorporated the effects of unprecedented macro-economic conditions and the government support measures on a reasonable and supportable basis. Taking into consideration of the extremely volatile and challenging macro-economic conditions, the impairment provisions recognised as management overlays were further increased during the year. The Bank also increased its collective impairment provisions during the year by reviewing the macro-economic variables used for the computation of Economic Factor Adjustment (EFA) in line with the latest macro-economic conditions. Further, the management recognised additional impairment provisions through increasing the probability weightage for the worst-case scenario and reducing the weightages for the best-case and base-case scenarios in multiple economic scenario adjustment. The Bank continued to examine the individually significant customers including debt moratorium customers and ensured adequate provisions were made in the Financial Statements as required. When assessing the impairment provisions for individually significant customers, several prudent measures such as extending the recovery cash flows, discounting the property values to reflect a more reasonable estimate of the fair value etc. were applied.

The Bank has downgraded the borrowers in elevated risk industries/segments who requested moratorium, between Stages as per internal assessments. The Bank has experienced a higher impairment charge during the year compared to prior years as a result of the unprecedented negative macro-economic conditions.

Further details are found in Note 38.2.7 – Management overlays and Model Adjustments.

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 or Loss upon derecognition of the assets.

2.9.6.4 Credit cards and other revolving facilities

The Bank's product offerings include 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 a very short 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 one year. For credit cards and revolving facilities that include both Loan and undrawn commitment, ECLs are calculated and presented together with the loan.

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 days past due and internal credit grade as explained in Note 38.2.2, 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 EIR 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 38.2.2, 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 (Most Likely) scenario

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

Upside (Best Case) 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 (Worst Case) 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 38.2.3.

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, properties, letters of credit, guarantees, receivables, inventories and other movable and non-movable assets. The fair value of collateral is generally assessed, at a minimum, at inception and thereafter value changes are monitored in accordance with policies and procedures of the Bank. However, some collateral, for example, cash or securities relating to margin 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 19.6 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 and Modified Loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties or deterioration of credit quality, 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 Risk Management Unit.

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.

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. Accordingly, all re-scheduled loans are classified as Stage 3 unless upgraded due to satisfactory performing period as specified in the Direction No.13 of 2021 on 'Classification, Recognition and Measurement of Credit Facilities in Licensed Banks' issued by the Central Bank of Sri Lanka. Further, loans which have been restructured are classified under stage 2 or Stage 3 based on the number of times restructured unless upgraded due to satisfactory performing period as specified in the said guidelines.

Details of restructured and rescheduled loans are disclosed in Note 38.2.6.2. If modifications are substantial, the loan is derecognised, as explained in Note 38.2.6.

2.9.11 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.

2.9.12 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.

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. 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.

2.9.12.1 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 financial asset. 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 the change in the level of 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).

2.9.12.2 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.

2.9.13 Cash and Cash Equivalents

Cash and cash equivalents as referred to in the Statement of Cash Flows comprise of cash in hand, balances with foreign banks on demand or with an original maturity of three months or less and placements with banks with original maturities of three months or less from the date of placement with insignificant risk of changes in value.

2.9.14 Other Assets

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

2.9.15 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.

2.9.16 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.

2.9.16.1 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.

2.9.17 Other Liabilities

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

2.9.18 Taxes

2.9.18.1 Current tax and deferred tax

Accounting policies relating to Current Tax and Deferred Tax are disclosed under Note 12.

2.9.18.2 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.

2.9.18.3 New taxes and levies - 2022

2.9.18.3.1 One-off Surcharge tax

Surcharge Tax is calculated at the rate of 25% on individuals, partnership or companies with a taxable income exceeding Rs. 2 billion for the Year of Assessment 2020/2021, in accordance with the provisions of the Surcharge Tax Act No.14 of 2022. However, the Bank was not liable for the surcharge tax as its taxable income for the Year of Assessment 2020/21 was below the said threshold.

2.9.18.3.2 Social security contribution levy

Social Security Contribution Levy is calculated at the rate of 2.5% in accordance with the provisions of the Social Security Contribution Levy Act

No. 25 of 2022 with effective from 01st October 2022.

2.9.19 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.

2.9.20 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.

2.9.21 Materiality and Aggregation

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by LKAS 1 – 'Presentation of Financial Statements'. Financial assets and financial liabilities are off-set 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 liabilities simultaneously. Income and expenses are not off-set in the income statement unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.9.22 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. The Related Party Transactions and balances are disclosed in Note 44.

2.9.23 Events After the Reporting Date

All the material events occurred after the end of the reporting period to the date the Financial Statements are authorised for issue, have been considered and appropriate adjustments/ disclosures have been made in Note 45 to the Financial Statements.

2.9.24 Comparative Information

The comparative information has been reclassified where ever necessary to conform with the current year's classification in order to provide a better presentation.

2.9.25 Changes in Accounting Policies

There were no changes in accounting policies and the accounting policies adopted are consistent with those of the previous financial year.

2.10 Regulatory Provisions

2.10.1 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, are repealed, and replaced with "Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations, No. 02 of 2021, 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. 02 of 2021 issued under Sections 32A to 32E of the Monetary Law Act with effect from 06th August 2021.

Deposits to be insured include demand, time, savings and Certificate of deposit liabilities inclusive of any interest accrued and exclude the following;

a) Deposit liabilities to Member Institutions
b) 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
c) Deposit liabilities maintained either individually or jointly with any other party, by former Directors or Key Management Personnel of the respective Member Institution
d) 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 2022.

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.

Amendments to LKAS 8 – Accounting Estimates

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of error and clarify how entities use measurement techniques, inputs to develop accounting estimates. Further, the standard clarifies, that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates, if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after 01st January 2023. Earlier application is permitted

Amendments to LKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify that, payments that settle a liability are deductible for tax purposes; it is a matter of judgement whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining any temporary differences exist on initial recognition of the asset and liability.

Further, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 01st January 2023.

Amendments to LKAS 1 and IFRS Practice Statement 2 - Making Materiality Judgments

This amendment provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their significant accounting policies with a requirement to disclose their material accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual reporting periods beginning on or after 01st January 2023.

Amendments to LKAS 1 - Classification of Liabilities as Current or Non-Current

Amendments specify the requirements for classifying liabilities as current or non-current by clarifying what is meant by a right to defer settlement, a right to defer must exist at the end of the reporting period, classification is unaffected by the likelihood that an entity will exercise its deferral right, only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification and disclosures.

The amendments are effective for annual reporting periods beginning on or after 01st January 2023.

Notes to the Financial Statements

4 NET INTEREST INCOME

Accounting Policy

Interest Income

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 38.2.2.1) and is no longer credit impaired, the Bank reverts to calculating interest income on a gross basis.

The Bank ceases the recognition of interest income on assets when it is probable that the economic benefits associated will not continue to flow to the Bank.

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 asset.

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'.

Interest Expense

The Bank calculates the interest expense by applying the EIR to the carrying amount of financial liabilities.

	2022 Rs 000	2021 Rs 000
Interest Income		
Placements with Banks	14,010	29,542
Financial Assets at Amortised Cost		
-Loans and Advances	22,523,743	16,023,300
-Debt and Other Instruments	3,793,761	2,737,972
Financial Assets at Fair Value through Profit or Loss	294,645	7,487
	26,626,159	18,798,301
Interest Expense		
Due to Banks	283,676	70,012
Financial Liabilities at Amortised Cost		
-Due to Depositors	15,482,354	8,070,833
-Due to Debt Securities Holders	1,164,099	806,124
Lease Liabilities (Note 23.2)	125,773	94,796
Subordinated Debentures	114,800	114,800
	17,170,702	9,156,565
Net Interest Income	9,455,457	9,641,736

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

	2022 Rs 000	2021 Rs 000
Interest Income	4,088,406	2,745,459
Interest Expense	(199,698)	(17,056)
Net Interest Income from Government Securities	3,888,708	2,728,403

Interest income from Sri Lanka government securities and related financial instruments includes interest income from Treasury Bills, Treasury Bonds, Sri Lanka Development Bonds, Sri Lanka International Sovereign Bonds, Reverse Repurchase Agreements, Standing Deposit Facilities and other related instruments.

Interest expense from Sri Lanka government securities and related financial instruments includes interest expense for Repurchase Agreements, Standing Lending Facilities and other related instruments.

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

	2022 Rs 000	2021 Rs 000
Interest Income	26,331,514	18,790,814
Interest Expense	(17,170,702)	(9,156,565)
Net Interest Income	9,160,812	9,634,249

4.3 Interest Accrued on Impaired Loans and Advances

The Bank's interest income for the year 2022 includes interest accrued on impaired loans and advances of Rs. 50,979,952/- (2021 - Rs.16,892,394/-)

5 NET FEE AND COMMISSION INCOME

Accounting Policy

Fee and Commission Income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income comprises 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:

a) 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.

b) 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.

Fee and Commission Expenses

Fee and commission expenses relate mainly to transactions and service fees which are expensed as the services are received. Fee and Commission Expenses have been recognised in the Financial Statements as they are incurred in the period to which they relate.

	2022 Rs 000	2021 Rs 000
Net Fee and Commission Income		
Fee and Commission Income	1,754,921	1,821,228
Fee and Commission Expenses	(36,112)	(38,295)
	1,718,809	1,782,933
Comprising		
Loans	542,302	999,729
Cards	333,971	364,647
Trade and Remittance	621,471	257,911
Deposits	139,536	93,884
Guarantees	81,529	66,762
	1,718,809	1,782,933

6 NET GAINS FROM TRADING

Accounting Policy

Results arising from trading activities include all gains and losses from buying and selling and changes in fair value of financial assets at FVPL.

	2022 Rs 000	2021 Rs 000
Equities - Unit Trusts		
Realised Gains	-	223,295
Debt Securities - Treasury Bills and Bonds		
Realised Gains/(Losses)	30,630	(7,782)
Unrealised Gains	8,459	-
Foreign Exchange - Net Forward Forex Gains/(Losses)	72,226	(123,256)
	111,315	92,257

6.1 Equities - Unit Trusts income includes the results of buying and selling, dividend income and changes in the fair value of unit trusts. Debt securities income includes the results of buying and selling and changes in the fair value of government debt securities. Foreign Exchange - Net Forward Forex Gains/(Losses) includes foreign exchange differences arising from derivative contracts which are not designated as hedging instruments.

6.2 The Bank has not entered into inter-bank foreign currency transactions of material nature for trading purposes in the normal course of business. Therefore, no material gain or loss generated from such transactions during the year. However, the Bank carries out forward transaction deals pertaining to customer requirements in the normal course of business.

7 OTHER OPERATING INCOME/(LOSSES)

Accounting Policy

Dividend Income

Dividend income is recognised when the Bank's right to receive the payment is established, which is generally when the shareholders approve the dividend.

Other Income

Other Income is recognised on an accrual basis.

	2022 Rs 000	2021 Rs 000
Gains/(Losses) on Revaluation of Foreign Exchange	(2,738,364)	334,111
Recovery of Loans Written-off	46,271	44,211
Other Income	12,842	13,426
	(2,679,251)	391,748

8 IMPAIRMENT CHARGES

Accounting Policy

The Bank recognises impairment provisions for financial assets in accordance with Sri Lanka Accounting Standard SLFRS 9 - 'Financial Instruments'. The accounting policy and methodology adopted in determining the same is given in Note 2.9.6 to the Financial Statements. These financial assets include Cash and Cash Equivalents, Placements with Banks, Loans and Advances - at Amortised Cost , Debt and Other Instruments - at Amortised Cost, Financial Guarantee Contracts and Documentary Credit. Further, the Bank recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset. No impairment loss is recognised on Equity Investments.

	2022 Rs 000	2021 Rs 000
Cash and Cash Equivalents (Note 14.1)	12,550	4,159
Loans and Advances - at Amortised Cost (Note 19.6)	1,137,576	1,621,317
Debt and Other Instruments - at Amortised Cost (Note 20.4)	1,645,100	719,499
Financial Guarantees (Note 30.3)	55,468	17,320
Documentary Credit (Note 30.3)	9,861	8,157
Total Impairment Charge	2,860,555	2,370,452

8.1 Impairment Charges - Stage-wise Analysis

	2022				2021			
	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Cash and Cash Equivalents	12,550	-	-	12,550	4,159	-	-	4,159
Loans and Advances - at Amortised Cost	(78,975)	(487,474)	1,704,025	1,137,576	92,606	524,463	1,004,248	1,621,317
Debt and Other Instruments - at Amortised Cost	(434,714)	2,079,814	-	1,645,100	719,499	-	-	719,499
Financial Guarantees	55,468	-	-	55,468	17,320	-	-	17,320
Documentary Credit	9,861	-	-	9,861	8,157	-	-	8,157
Total	(435,810)	1,592,340	1,704,025	2,860,555	841,741	524,463	1,004,248	2,370,452

9 PERSONNEL EXPENSES

Accounting Policy

Accounting policies relating to short term employee benefits, defined contribution plan expenses and defined benefit plan expenses are disclosed under Note 2.9.12.2 and Note 31 respectively.

	2022 Rs 000	2021 Rs 000
Salaries, Wages and Other Related Expenses	1,554,636	1,908,905
Defined Contribution Plan Expenses - Employees' Provident Fund	170,025	164,111
- Employees' Trust Fund	40,458	39,033
Defined Benefit Plan Expenses (Note 31.1)	89,932	68,097
Amortisation of Pre-paid Staff Cost (Note 25.1)	30,064	43,089
Other Expenses	8,561	4,124
	1,893,676	2,227,359

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

10 OTHER OPERATING EXPENSES

Accounting Policy

Accounting policies relating to other operating expenses are disclosed under Note 2.9.12.

	2022 Rs 000	2021 Rs 000
Directors' Emoluments (Note 10.1)	72,920	67,670
Auditors' Remuneration	5,161	4,690
Professional and Legal Expenses	31,364	24,571
Depreciation of Property, Plant and Equipment (Note 22.2)	143,915	140,884
Amortisation of Right-of-Use Assets (Note 23.1)	283,846	268,911
Amortisation of Intangible Assets (Note 24.2)	53,728	50,044
Administration and Establishment Expenses (Note 10.2)	849,243	614,958
Business Development Expenses	229,849	266,057
Deposit Insurance Expense	153,898	131,319
Credit Card Related Expenses	176,181	126,497
Other Expenses (Note 10.3)	762,576	704,032
	2,762,681	2,399,633

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

10.1 Directors' emoluments include salaries, bonuses and other related expenses of the Chief Executive Officer/ Managing Director and fees paid to Non-Executive Directors.

10.2 Administration and establishment expenses include expenses incurred on maintenance of assets, electricity, janitorial, fuel etc.

10.3 Other expenses include expenses incurred on insurance, printing & stationery, telephone & data communication, travelling & transport etc.

11 VALUE ADDED TAX ON FINANCIAL SERVICES

Accounting Policy

Value added tax on financial services is calculated at 18% (2021-15%) in accordance with the provisions of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

	2022 Rs 000	2021 Rs 000
Value Added Tax on Financial Services	439,565	877,577
	439,565	877,577

12 INCOME TAX EXPENSE/(REVERSAL)

Accounting Policy

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 and amendments thereto.

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 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.

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 at the reporting date, which is the statutory rate specified in the Inland Revenue Act as of the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, carry forward 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, 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 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.

The major components of income tax expense for the years ended 31st December 2022 and 31st December 2021 are:

	2022 Rs 000	2021 Rs 000
Current Tax Expense		
Current Tax Charge of Profit for the Year (Note 12.1)	664,365	857,906
Under/(Over) Provisions in Respect of Previous Years (Note 12.1)	-	97,251
Total Current Tax Expense	664,365	955,157
Deferred Tax Expense		
Relating to Origination and Reversal of Temporary Differences (Note 12.1)	(1,966,086)	(30,438)
Relating to Tax Rate Change (Note 12.1)	(50,366)	33,576
Total Deferred Tax Expense (Note 12.2)	(2,016,452)	3,138
Total Income Tax Expense (Profit or Loss) - (Note 12.1)	(1,352,087)	958,295

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 2022 and 31st December 2021 is as follows:

	2022 Rs 000	2021 Rs 000
Accounting Profit Before Tax	649,853	4,033,653
Statutory Income Tax Rate at 24%/30% (2021-24%)	165,205	968,077
Non-Deductible Expenses and Amounts	628,092	981,697
Deductible Expenses and Amounts	(78,321)	(983,699)
Income Not Subject to Tax	(50,611)	(108,169)
Current Tax on Profits at 24%/30% (2021-24%)	664,365	857,906
Under/(Over) Provisions in Respect of Previous Years	-	97,251
Total Current Tax Expense	664,365	955,157
Recognition of Deferred Tax on Temporary Differences	(1,966,086)	(30,438)
Recognition of Deferred Tax on Income Tax Rate Change	(50,366)	33,576
Total Deferred Tax Expense (Note 12.2)	(2,016,452)	3,138
Total Income Tax Expense	(1,352,087)	958,295
Effective Tax Rate	-208.06%	23.76%
Effective Tax Rate (Excluding Deferred Tax)	102.23%	23.68%

12.2 Deferred Tax

The following table shows deferred tax assets and Liabilities recorded on the Statement of Financial Position and changes recorded in the Statement of Comprehensive Income (Profit or Loss and Other Comprehensive Income).

	2022			2021		
	Deferred Tax Liabilities/(Assets) in Statement of Financial Position	Statement of Comprehensive Income		Deferred Tax Liabilities/(Assets) in Statement of Financial Position	Statement of Comprehensive Income	
		Profit or Loss	Other Comprehensive Income		Profit or Loss	Other Comprehensive Income
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Lease Rentals Receivable	178,386	(43,606)	-	221,992	(89,569)	-
Property, Plant and Equipment	567,697	13,987	151,838	401,872	(19,696)	(53,311)
Intangible Assets	49,440	5,049	-	44,391	(16,728)	-
Defined Benefit Plan Obligation	(141,099)	(37,424)	(13,231)	(90,444)	8,806	8,738
Impairment on Financial Assets	(2,413,868)	(1,954,458)	-	(459,410)	120,325	-
Total	(1,759,444)	(2,016,452)	138,607	118,401	3,138	(44,573)

12.3 Application of Income Tax Legislations

The Inland Revenue (Amendment) Act, No. 45 of 2022 was certified by the Honourable Speaker on 19th December 2022. Accordingly, the income tax rate of 24% was increased to 30% w.e.f. 01st October 2022. Both income tax and deferred tax provisions for the year ended 31st December 2022 were calculated as per the specification of this Act.

Accordingly, the Bank has applied 24% and 30% for the computation of current tax for the respective taxable periods in 2022. Further, the net deferred tax asset as at 31st December 2022 were also reassessed at 30%.

13 EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary shareholders 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 shareholders 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;

	2022	2021
Profit Attributable to Ordinary Shareholders (Rs 000)	2,001,940	3,075,358
Weighted Average Number of Ordinary Shares in Issue (Note 33)	442,561,629	442,561,629
Basic/Diluted Earnings Per Share (Rs.)	4.52	6.95

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the issue of these Financial Statements which would require the restatement of earnings per share.

There were no dividend payments during the year (2021 - Nil).

14 CASH AND CASH EQUIVALENTS

	2022 Rs 000	2021 Rs 000
Cash in Hand (Note 40.1)	2,059,357	1,720,424
Balances with Local and Foreign Banks (Note 14.1)	3,334,761	504,952
	5,394,118	2,225,376
Less: Allowance for Impairment Losses (Note 14.1)	(19,834)	(7,284)
	5,374,284	2,218,092

14.1 Allowance for Impairment Losses

Balances with Local and 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 local and 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

	2022 Rs 000	2021 Rs 000
Balances with Local and Foreign Banks	3,334,761	504,952
	3,334,761	504,952

All balances held with local and foreign banks at the year end are 'Stage 1' assets.

Notes to the Financial Statements

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Balances with Local and Foreign Banks is as follows:

Gross Carrying Amount

	2022		
	Balance as at 01/01/2022	Net Increase During the Year	Balance as at 31/12/2022
	Rs 000	Rs 000	Rs 000
Balances with Local and Foreign Banks	504,952	2,829,809	3,334,761
	504,952	2,829,809	3,334,761

ECL Allowances

	2022		
	ECL Allowances as at 01/01/2022	Net Increase During the Year	ECL Allowances as at 31/12/2022
	Rs 000	Rs 000	Rs 000
Balances with Local and Foreign Banks	7,284	12,550	19,834
	7,284	12,550	19,834

Gross Carrying Amount

	2021		
	Balance as at 01/01/2021	Net Increase During the Year	Balance as at 31/12/2021
	Rs 000	Rs 000	Rs 000
Balances with Local and Foreign Banks	254,208	250,744	504,952
	254,208	250,744	504,952

ECL Allowances

	2021		
	ECL Allowances as at 01/01/2021	Net Increase During the Year	ECL Allowances as at 31/12/2021
	Rs 000	Rs 000	Rs 000
Balances with Local and Foreign Banks	3,125	4,159	7,284
	3,125	4,159	7,284

The increase in ECL's of the portfolio was driven by changes in the composition of the portfolio and changes to historical loss experience.

The maturity analysis of cash and cash equivalents is given in Note 41.

15 BALANCES WITH CENTRAL BANK OF SRI LANKA

	2022 Rs 000	2021 Rs 000
Statutory Deposit with Central Bank of Sri Lanka (Note 15.1)	5,158,683	4,738,304
Non-Statutory Balance with Central Bank of Sri Lanka (Standing Deposit Facilities)	150,120	300,041
	5,308,803	5,038,345

15.1 Statutory Deposit with Central Bank of Sri Lanka

Statutory Deposit with Central Bank of Sri Lanka represents 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 2022 was 4% (2021- 4%). 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 41.

16 REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS IN SCRIPLESS TREASURY BILLS AND TREASURY BONDS

Securities purchased under agreement to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, as an asset within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the agreement using the EIR.

Conversely, securities sold under agreement to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Bank retains substantially all of the risks and rewards of ownership. The consideration received, including accrued interest, is recognised in the Statement of Financial Position as a liability within 'Repurchase Agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase price is treated as interest expense and is accrued over the life of the agreement using the EIR.

16.1 Reverse Repurchase Agreements

	2022 Rs 000	2021 Rs 000
Due from Banks	2,003,276	-
	2,003,276	-

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 as at 31st December 2022 is Rs. 2,279,298,792/- (2021 - Nil).

16.2 Repurchase Agreements

	2022 Rs 000	2021 Rs 000
Due to;		
Other Financial Institutions	-	10,000
Other Counterparties	40,526	244,154
	40,526	254,154

The Bank pledges collateral against repurchase agreements and the respective counterparties are permitted to sell or re-pledge the collateral in case of a default by the Bank. The carrying value of collateral pledged under repurchase agreements by the Bank as at 31st December 2022 is Rs. 72,710,000/- (2021- Rs. 277,502,321/-) and fair value of collaterals pledged as at 31st December 2022 is Rs. 49,743,892/- (2021- Rs. 301,595,049/-).

16.3 Bank's Policy on Haircuts for Repurchase and Reverse Repurchase Transactions

According to the Bank's internal policies, minimum haircuts applicable for each maturity bucket as at 31st December 2022 is given below. The haircuts applied meet the minimum haircut requirements imposed by the CBSL Direction No. 01 of 2019.

Remaining Term to Maturity of the Eligible Security	Minimum Haircut (%)	
	Repurchase Transactions	Reverse Repurchase Transactions
Up to 2 years	10	10
Over 2 to 5 years	10	12
Over 5 to 10 years	12	15
Over 10 years	12	20

16.4 Penalties Imposed on the Bank for Non-Compliance

No penalties have been imposed on the Bank for non-compliance with the Direction No. 01 of 2019 during the years 2022 and 2021.

17 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.

	2022			2021		
	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Forward Foreign Exchange Contracts and Currency Swaps (Note 42)	-	56,097	19,432,396	4,592	33	16,464,683
	-	56,097	19,432,396	4,592	33	16,464,683

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 37.

The maturity analysis of derivative financial assets and liabilities is given in Note 41.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 Rs 000	2021 Rs 000
Sri Lanka Government Rupee Securities	2,138,713	-
Treasury Bills	2,138,713	-
Treasury Bonds	101,044	-
	2,239,757	-

All Financial Assets at FVPL are unencumbered.

The maturity analysis of FVPL is given in Note 41.

19 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES

	2022 Rs 000	2021 Rs 000
Gross Loans and Advances		
Stage 1 (Note 19.6)	122,214,338	119,332,479
Stage 2 (Note 19.6)	18,865,868	20,743,930
Stage 3 (Note 19.6)	12,999,103	10,607,615
	154,079,309	150,684,024
Impairment for Expected Credit Losses		
Stage 1 (Note 19.6)	(1,129,765)	(1,208,740)
Stage 2 (Note 19.6)	(1,897,450)	(1,671,499)
Stage 3 (Note 19.6)	(6,903,984)	(5,434,628)
	(9,931,199)	(8,314,867)
Net Loans and Advances	144,148,110	142,369,157

19.1 Product-wise Analysis

	2022 Rs 000	2021 Rs 000
Term Loans	97,845,863	100,358,520
Overdrafts	14,346,626	15,611,229
Trade Finance	2,707,541	4,570,341
Lease Rentals Receivable (Note 43.1)	8,954,624	10,475,359
Others*	30,224,655	19,668,575
Total	154,079,309	150,684,024

19.2 Currency-wise Analysis

	2022 Rs 000	2021 Rs 000
Sri Lankan Rupee	146,728,447	142,806,129
United States Dollar	5,268,600	4,912,500
Japanese Yen	2,005,982	1,968,450
Euro	72,963	820,451
Great Britain Pound	-	38,433
Others	3,317	138,061
Total	154,079,309	150,684,024

19.3 Industry-wise Analysis

Industry-wise analysis of Loans and Advances are found in Note 38.2.9.2 (Concentration by Industry Sector).

19.4 Collateralisation-wise Analysis

	2022 Rs 000	2021 Rs 000
Pledged as Collateral	450,163	1,061,383
Unencumbered	153,629,146	149,622,641
	154,079,309	150,684,024

19.5 Individually Impaired Loans and Advances

	2022 Rs 000	2021 Rs 000
Gross amount of Loans and Advances, individually determined to be impaired, before deducting Impairment Losses	6,320,610	4,414,980
Less: Individual Impairment Losses	(4,330,720)	(3,099,402)
Net Exposure	1,989,890	1,315,578
Individually Impaired Loan Cover (Individual Impairment Losses to Gross Individually Impaired Loans and Advances)	68.52%	70.20%
Individually Impaired Loans and Advances Ratio (Individually Impaired Loans and Advances to Gross Loans and Advances)	4.10%	2.93%

19.6 Stage Classification of Gross Loans and Advances and ECL Allowances

The tables below show the year end stage classification of gross loans and advances and ECL allowances. The amounts presented are gross of impairment allowances. The 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.

	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Term Loans	77,229,006	11,879,041	8,737,816	97,845,863	80,450,594	13,347,829	6,560,097	100,358,520
Overdrafts	10,660,769	1,672,120	2,013,737	14,346,626	11,224,254	2,193,518	2,193,457	15,611,229
Trade Finance	2,043,812	208,710	455,019	2,707,541	2,708,800	1,422,819	438,722	4,570,341
Lease Rentals Receivable	5,719,855	2,673,795	560,974	8,954,624	7,644,679	2,386,275	444,405	10,475,359
Others*	26,560,896	2,432,202	1,231,557	30,224,655	17,304,152	1,393,489	970,934	19,668,575
	122,214,338	18,865,868	12,999,103	154,079,309	119,332,479	20,743,930	10,607,615	150,684,024

*'Others' include credit card advances, gold backed lending, margin trading advances, cheques & drafts purchased and staff loans.

There were no Purchased or Originated Credit Impaired (POCI) assets within loans and advances as at the year end (2021- Nil).

An analysis of changes in the gross carrying amounts and the corresponding ECL allowances in relation to loans and advances is as follows:

Gross Carrying Amount

		2022							
	Stage	Balance as at 01/01/2022	Net Increase/ (Decrease) During the Year*	Exchange Rate Variance on Foreign Currency Loans and Advances	Transfers to/(from) Stage 1	Transfers to/(from) Stage 2	Transfers to/(from) Stage 3	Amounts Written-Off	Balance as at 31/12/2022
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Term Loans	Stage 1	80,450,594	(3,480,433)	519,569	2,449,033	(2,302,103)	(407,654)	-	77,229,006
	Stage 2	13,347,829	(1,039,774)	669,597	(2,317,701)	2,700,267	(1,481,177)	-	11,879,041
	Stage 3	6,560,097	743,795	512,432	(131,332)	(398,164)	1,888,831	(437,843)	8,737,816
Overdrafts	Stage 1	11,224,254	40,141	49,528	611,210	(1,053,029)	(211,335)	-	10,660,769
	Stage 2	2,193,518	(946,352)	15,868	(593,333)	1,384,121	(381,702)	-	1,672,120
	Stage 3	2,193,457	(112,301)	29,450	(17,877)	(331,092)	593,037	(340,937)	2,013,737
Trade Finance	Stage 1	2,708,800	(665,165)	45,138	-	(44,961)	-	-	2,043,812
	Stage 2	1,422,819	(1,333,642)	2	-	124,106	(4,575)	-	208,710
	Stage 3	438,722	61,995	154,774	-	(79,145)	4,575	(125,902)	455,019
Lease Rentals Receivable	Stage 1	7,644,679	(996,190)	-	586,322	(1,391,557)	(123,399)	-	5,719,855
	Stage 2	2,386,275	(360,460)	-	(552,534)	1,449,331	(248,817)	-	2,673,795
	Stage 3	444,405	(162,260)	-	(33,788)	(57,774)	372,216	(1,825)	560,974
Others	Stage 1	17,304,152	9,722,045	-	104,945	(215,861)	(354,385)	-	26,560,896
	Stage 2	1,393,489	873,297	-	(25,782)	216,940	(25,742)	-	2,432,202
	Stage 3	970,934	8,270	-	(79,163)	(1,079)	380,127	(47,532)	1,231,557
		150,684,024	2,352,966	1,996,358	-	-	-	(954,039)	154,079,309

*This includes the effect of new disbursements, utilisation, repayments and settlements.

ECL Allowances

	Stage	2022				
		Balance as at 01/01/2022	Charge/ (Reversal) During the Year	Exchange Rate Variance on Foreign Currency Provisions	Amounts Written- Off	Balance as at 31/12/2022
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Term Loans	Stage 1	372,106	(14,101)	-	-	358,005
	Stage 2	1,384,956	(413,328)	713,425	-	1,685,053
	Stage 3	2,721,624	1,344,398	551,120	(437,843)	4,179,299
Overdrafts	Stage 1	429,489	(40,363)	-	-	389,126
	Stage 2	207,075	(78,211)	-	-	128,864
	Stage 3	1,572,138	84,630	62,678	(340,937)	1,378,509
Trade Finance	Stage 1	11,705	3,491	-	-	15,196
	Stage 2	44,985	(32,675)	-	-	12,310
	Stage 3	237,352	49,793	105,572	(125,902)	266,815
Lease Rentals Receivable	Stage 1	34,570	283	-	-	34,853
	Stage 2	13,842	16,761	-	-	30,603
	Stage 3	79,048	20,432	-	(1,825)	97,655
Others	Stage 1	360,870	(28,285)	-	-	332,585
	Stage 2	20,641	19,979	-	-	40,620
	Stage 3	824,466	204,772	-	(47,532)	981,706
		8,314,867	1,137,576	1,432,795	(954,039)	9,931,199

The charge/(reversal) in ECL's of the portfolios were driven by an increase/(decrease) in the gross size of the portfolios/ 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 macro-economic conditions.

Gross Carrying Amount

	Stage	Balance as at 01/01/2021	Net Increase/ (Decrease) During the Year*	Transfers to/(from) Stage 1	Stage 2	Stage 3	Amounts Written-Off	Balance as at 31/12/2021
		2021						
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Term Loans	Stage 1	72,049,665	10,134,804	2,136,702	(3,345,592)	(524,985)	-	80,450,594
	Stage 2	13,941,376	(1,235,692)	(1,952,520)	3,778,010	(1,183,345)	-	13,347,829
	Stage 3	6,190,626	(481,039)	(184,182)	(432,418)	1,708,330	(241,220)	6,560,097
Overdrafts	Stage 1	8,815,014	1,694,275	1,264,328	(466,814)	(82,549)	-	11,224,254
	Stage 2	2,530,885	160,994	(1,053,088)	618,632	(63,905)	-	2,193,518
	Stage 3	2,520,215	56,304	(211,240)	(151,818)	146,454	(166,458)	2,193,457
Trade Finance	Stage 1	1,484,625	1,204,560	7,228	12,387	-	-	2,708,800
	Stage 2	84,413	1,350,948	-	(32,307)	19,765	-	1,422,819
	Stage 3	438,885	6,910	(7,228)	19,920	(19,765)	-	438,722
Lease Rentals Receivable	Stage 1	5,485,648	1,839,140	1,309,962	(883,696)	(106,375)	-	7,644,679
	Stage 2	3,601,252	(698,747)	(1,265,866)	920,166	(170,530)	-	2,386,275
	Stage 3	409,685	(132,188)	(44,096)	(36,470)	276,905	(29,431)	444,405
Others	Stage 1	10,242,138	6,417,278	592,634	(51,485)	103,587	-	17,304,152
	Stage 2	1,421,428	350,245	(381,770)	56,863	(53,277)	-	1,393,489
	Stage 3	1,535,923	165,495	(210,864)	(5,378)	(50,310)	(463,932)	970,934
		130,751,778	20,833,287	-	-	-	(901,041)	150,684,024

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

ECL Allowances

	Stage	Balance as at 01/01/2021	Charge/ (Reversal) During the Year	Amounts Written-Off	Balance as at 31/12/2021
		2021			
		Rs 000	Rs 000	Rs 000	Rs 000
Term Loans	Stage 1	322,246	49,860	-	372,106
	Stage 2	795,367	589,589	-	1,384,956
	Stage 3	2,140,240	822,604	(241,220)	2,721,624
Overdrafts	Stage 1	417,224	12,265	-	429,489
	Stage 2	163,115	43,960	-	207,075
	Stage 3	1,693,183	45,413	(166,458)	1,572,138
Trade Finance	Stage 1	6,416	5,289	-	11,705
	Stage 2	2,506	42,479	-	44,985
	Stage 3	199,049	38,303	-	237,352
Lease Rentals Receivable	Stage 1	25,206	9,364	-	34,570
	Stage 2	30,422	(16,580)	-	13,842
	Stage 3	65,299	43,180	(29,431)	79,048
Others	Stage 1	345,042	15,828	-	360,870
	Stage 2	155,626	(134,985)	-	20,641
	Stage 3	1,233,650	54,748	(463,932)	824,466
		7,594,591	1,621,317	(901,041)	8,314,867

The charge/(reversal) 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 macro-economic conditions.

There were no financial instruments that considered to have low credit risk, in accordance with SLFRS 9 - Financial Instruments, under loans and advances as at the reporting date. (2021-Nil).

The maturity analysis of loans and advances at amortised cost is given in Note 41.

20 FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

	2022 Rs 000	2021 Rs 000
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds (Note 20.4)	25,935,164	21,309,326
Sri Lanka Government Foreign Currency Securities (Note 20.4)	19,148,953	13,889,435
	45,084,117	35,198,761
Less: Allowance for Impairment Losses (Note 20.4)	(4,889,069)	(1,088,178)
	40,195,048	34,110,583

20.1 Currency-wise Analysis

	2022 Rs 000	2021 Rs 000
Sri Lankan Rupee	25,935,164	21,309,326
United States Dollar	19,148,953	13,889,435
	45,084,117	35,198,761

20.2 Collateralisation-wise Analysis

	2022 Rs 000	2021 Rs 000
Pledged as Collateral	72,710	277,502
Unencumbered	45,011,407	34,921,259
	45,084,117	35,198,761

20.3 Maturity Analysis of Debt and Other Instruments

	2022			2021		
	Amount Due Within 12 Months Rs 000	Amount Due After 12 Months Rs 000	Total Rs 000	Amount Due Within 12 Months Rs 000	Amount Due After 12 Months Rs 000	Total Rs 000
Sri Lanka Government Rupee Securities						
Treasury Bills	12,503,689	-	12,503,689	7,530,933	-	7,530,933
Treasury Bonds	6,577,097	6,854,378	13,431,475	1,199,251	12,579,142	13,778,393
Sri Lanka Government Foreign Currency Securities						
Sri Lanka Development Bonds (SLDBs)	5,601,537	-	5,601,537	2,514,492	3,045,000	5,559,492
Sri Lanka International Sovereign Bonds (SLISBs)	2,632,559	10,914,857	13,547,416	2,186,685	6,143,258	8,329,943
	27,314,882	17,769,235	45,084,117	13,431,361	21,767,400	35,198,761

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

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

The tables below show the year end stage classification of gross debt and other instruments and ECL allowances. 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.

	2022			2021	
	Stage 1 Rs 000	Stage 2 Rs 000	Total Rs 000	Stage 1 Rs 000	Total Rs 000
Sri Lanka Government Rupee Securities					
Treasury Bills	12,503,689	-	12,503,689	7,530,933	7,530,933
Treasury Bonds	13,431,475	-	13,431,475	13,778,393	13,778,393
Sri Lanka Government Foreign Currency Securities					
Sri Lanka Development Bonds (SLDBs)	-	5,601,537	5,601,537	5,559,492	5,559,492
Sri Lanka International Sovereign Bonds (SLISBs)	-	13,547,416	13,547,416	8,329,943	8,329,943
	25,935,164	19,148,953	45,084,117	35,198,761	35,198,761

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

	Stage	2022					2021		
		Balance as at 01/01/2022 Rs 000	Net Increase/ (Decrease) During the Year Rs 000	Exchange Rate Variance on Foreign Currency Debt and Other Instruments Rs 000	Transfer to/(from) Stage 2* Rs 000	Balance as at 31/12/2022 Rs 000	Balance as at 01/01/2021 Rs 000	Net Increase/ (Decrease) During the Year Rs 000	Balance as at 31/12/2021 Rs 000
Sri Lanka Government Rupee Securities									
Treasury Bills	Stage 1	7,530,933	4,972,756	-	-	12,503,689	9,137,914	(1,606,981)	7,530,933
Treasury Bonds	Stage 1	13,778,393	(346,918)	-	-	13,431,475	10,767,500	3,010,893	13,778,393
Sri Lanka Government Foreign Currency Securities									
Sri Lanka Development Bonds (SLDBs)	Stage 1	5,559,492	(2,427,901)	2,469,946	(5,601,537)	-	5,140,414	419,078	5,559,492
	Stage 2	-	-	-	5,601,537	5,601,537	-	-	-
Sri Lanka International Sovereign Bonds (SLISBs)	Stage 1	8,329,943	(756,135)	5,973,608	(13,547,416)	-	9,591,346	(1,261,403)	8,329,943
	Stage 2	-	-	-	13,547,416	13,547,416	-	-	-
		35,198,761	1,441,802	8,443,554	-	45,084,117	34,637,174	561,587	35,198,761

*The Ministry of Finance on its letter dated 12th April 2022, announced its 'Interim Policy Regarding the Servicing of Sri Lanka's External Public Debt' declaring the external public debt service standstill of the Government of Sri Lanka that would continue until effecting of restructuring of external public debt. Subsequently, the Bank has transferred the investments made in SLISBs from Stage 1 to Stage 2 due to the significant increase in credit risk levels as SLISBs are falling under the definition of 'Affected Debts' under the arrangement announced.

SLDBs have been excluded from the 'Affected Debts' under the arrangement announced and an alternative mechanism for settlement of SLDBs was introduced on 29th April 2022. Since the government's ability to honour its foreign currency commitments have been impacted severely, the following alternative mechanisms for settlement of SLDBs have been introduced;

- Maturity extension of respective SLDB investments (Including interest) up to a minimum of 6 months from due payment date with original terms and conditions.
- Facilitation of Treasury Bonds auctioned at the immediately preceding primary market issuance at the Weighted Average Yield Rate.
- Settlement in Sri Lankan Rupees, subject to monetary policy considerations.

Accordingly, the Bank has transferred the investments made in SLDBs from Stage 1 to Stage 2 taking into consideration of the government's limited ability in honouring foreign currency obligations.

ECL Allowances

	Stage	2022					2021		
		Balance as at 01/01/2022	Charge/ (Reversals) During the Year	Exchange Rate Variance on Foreign Currency Provisions	Transfer to/(from) Stage 2	Balance as at 31/12/2022	Balance as at 01/01/2021	Charge for the Year	Balance as at 31/12/2021
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Sri Lanka Government Foreign Currency Securities									
Sri Lanka Development Bonds (SLDBs)	Stage 1	435,563	(353,116)	65,028	(147,475)	-	128,645	306,918	435,563
	Stage 2	-	-	-	147,475	147,475	-	-	-
Sri Lanka International Sovereign Bonds (SLISBs)	Stage 1	652,615	(81,598)	2,090,763	(2,661,780)	-	240,034	412,581	652,615
	Stage 2	-	2,079,814	-	2,661,780	4,741,594	-	-	-
		1,088,178	1,645,100	2,155,791	-	4,889,069	368,679	719,499	1,088,178

The changes in ECLs are driven by increase/(decrease) in the gross size of the portfolios, changes in historical loss experience and deterioration of macro-economic conditions.

There were no financial instruments that considered to have low credit risk, in accordance with SLFRS 9 - 'Financial Instruments' under debt and other instruments as at the reporting date. (2021-Nil).

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

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022	2021
	Rs 000	Rs 000
Equities - Unquoted (Note 21.1)	3,752	3,752
	3,752	3,752

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.

21.1 Equities - Unquoted

	2022		2021	
	No. of Shares	Amount Rs 000	No. of Shares	Amount Rs 000
Credit Information Bureau of Sri Lanka (CRIB)	300	30	300	30
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	3	1,722	3	1,722
Lanka Clear (Private) Limited	100,000	1,000	100,000	1,000
Lanka Financial Services Bureau Limited (LFSB)	100,000	1,000	100,000	1,000
		3,752		3,752

21.2 Currency-wise Analysis

	2022 Rs 000	2021 Rs 000
Sri Lankan Rupee	3,752	3,752
	3,752	3,752

21.3 Collateralisation-wise Analysis

	2022 Rs 000	2021 Rs 000
Unencumbered	3,752	3,752
	3,752	3,752

The maturity analysis of financial assets at fair value through other comprehensive income is given in Note 41.

22 PROPERTY, PLANT AND EQUIPMENT

Accounting Policy

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.

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 assets can be reliably measured.

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). 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 of property, plant and equipment.

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.

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 value 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 value 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.

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 are not included under the carrying values of that item.

Derecognition

The carrying values 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 values and the net disposal proceeds is included in Profit or Loss when the item is derecognised.

When replacement costs are recognised in the carrying values of an item of property, plant and equipment, the remaining carrying values of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying values of the previous cost of inspections is derecognised.

Depreciation

The Bank provides depreciation from the date the assets are available for use up to the date of disposal at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Bank of the different types of assets, except for which are disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date that the asset is 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 methods, useful lives and residual values of assets are reviewed at each financial reporting date. If there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method shall be changed to reflect the changed pattern.

22.1 Cost/Fair Value

	Freehold Land	Freehold Buildings	Office Equipment	Computer Hardware & Equipment	Furniture & Fittings	Motor Vehicles	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
As at 01st January 2022	1,420,100	487,788	447,653	670,054	730,623	20,596	3,776,814
Additions	-	-	18,524	34,446	98,928	-	151,898
Revaluation Effect	99,900	102,212	-	-	-	-	202,112
Disposals	-	-	(11,445)	(3,840)	(48,295)	-	(63,580)
As at 31st December 2022	1,520,000	590,000	454,732	700,660	781,256	20,596	4,067,244

22.2 Depreciation and Impairment

	Freehold Land	Freehold Buildings	Office Equipment	Computer Hardware & Equipment	Furniture & Fittings	Motor Vehicles	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
As at 01st January 2022	-	23,165	374,820	451,316	571,350	20,337	1,440,988
Depreciation Charge for the Year (Note 10)	-	18,532	26,213	47,662	51,448	60	143,915
Revaluation Effect	-	(41,697)	-	-	-	-	(41,697)
Disposals	-	-	(11,381)	(3,764)	(46,966)	-	(62,111)
As at 31st December 2022	-	-	389,652	495,214	575,832	20,397	1,481,095

There were no impairment losses recognised on property, plant and equipment as at 31st December 2022 (2021-Nil).

22.3 Net Book Value:

	Freehold Land	Freehold Buildings	Office Equipment	Computer Hardware & Equipment	Furniture & Fittings	Motor Vehicles	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
As at 31st December 2021	1,420,100	464,623	72,833	218,738	159,273	259	2,335,826
As at 31st December 2022	1,520,000	590,000	65,080	205,446	205,424	199	2,586,149

22.4 There were no capital work-in-progress outstanding as at the Statement of Financial Position Date (2021- Nil).

22.5 Freehold Land and Building - Addresses, Locations and Extents

Address	Extent		31st December 2022 Revalued Amount		31st December 2021 Revalued Amount	
	Land (Perches)	Building (Square Feet)	Land Rs 000	Building Rs 000	Land Rs 000	Building Rs 000
No: 450, Galle Road, Colombo 03	23.66	41,420	600,000	570,000	561,925	472,188
No: 08, Sea Avenue, Colombo 03	18.55	-	365,000	-	338,538	-
No: 10, Sea Avenue, Colombo 03	19.80	-	375,000	-	351,450	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03	9.75	3,900	180,000	20,000	168,187	15,600
Total (Note 37.2)			1,520,000	590,000	1,420,100	487,788

22.6 All freehold land and buildings 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 22.8. Revaluation surplus arising out of the revaluation has been transferred to Revaluation Reserve.

Significant Unobservable Valuation Inputs
Land: Price per perch Rs. 18,500,000/- - Rs. 25,500,000/-
Building: Monthly rent per square feet - Rs. 205/-

Significant increase/decrease in estimated price per perch and 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 37.2.

22.7 The carrying value of revalued land and buildings, if they were carried at cost less depreciation, would be as follows;

	2022			2021		
	Cost Rs 000	Accumulated Depreciation Rs 000	Carrying Value Rs 000	Cost Rs 000	Accumulated Depreciation Rs 000	Carrying Value Rs 000
Freehold Land	413,653	-	413,653	413,653	-	413,653
Freehold Building	223,253	86,016	137,237	223,253	80,434	142,819
Total	636,906	86,016	550,890	636,906	80,434	556,472

22.8 Details of the land and buildings stated at revalued amounts as at 31st December 2022 are given below;

Location/Address	Valuer Name	Date of Valuation	Method of Valuation	Land		Building	
				Cost Rs 000	Revalued Amount Rs 000	Cost Rs 000	Revalued Amount Rs 000
No: 450, Galle Road, Colombo 03	J.M.S. Bandara	December 2022	Investment Method/ Income Method	183,970	600,000	212,333	570,000
No: 08, Sea Avenue, Colombo 03	J.M.S. Bandara	December 2022	Investment Method/ Income Method	106,167	365,000	-	-
No: 10, Sea Avenue, Colombo 03				82,437	375,000	-	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03				41,079	180,000	10,920	20,000
				413,653	1,520,000	223,253	590,000

22.9 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;

	2022 Rs 000	2021 Rs 000
Office Equipment	309,491	282,698
Computer Hardware and Equipment	369,379	336,945
Furniture & Fittings	411,275	366,328
Motor Vehicles	20,298	20,298
	1,110,443	1,006,269

22.10 There were no property, plant and equipment identified as temporarily idle as at the date of the Statement of Financial Position (2021-Nil).

22.11 The following property, plant and equipment were retired from active use as at the date of the Statement of Financial Position.

	2022 Rs 000	2021 Rs 000
Computer Hardware and Equipment	60,388	17,810

22.12 There were no restrictions on the title of property, plant and equipment as at the date of the Statement of Financial Position (2021 - Nil).

22.13 There were no items of property, plant and equipments pledged as securities against liabilities as at the date of the Statement of Financial Position (2021 - Nil).

22.14 There were no capitalised borrowing costs relating to acquisition of property, plant and equipment during the year (2021 - Nil).

23 RIGHT-OF-USE (ROU) ASSETS

Accounting Policy

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 (ROU) assets and lease liabilities.

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 ROU assets representing the right to use the underlying assets.

The Bank recognises ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU 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. ROU assets are depreciated on a straight line basis over the lease term and are subject to impairment in line with the Bank's policy for impairment of non-financial assets.

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.

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.

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 ROU 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.

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 'Other Operating Income' 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.

23.1 Assets hold under lease have been recognised as ROU assets under SLFRS 16.

	2022 Rs 000	2021 Rs 000
As at 01st January	1,377,406	983,365
Impact of New Leases	591,000	801,508
Leases Expired and Modified during the Year	(90,574)	(138,556)
Amortisation Charge for the Year (Note 10)	(283,846)	(268,911)
As at 31st December	1,593,986	1,377,406

23.2 Corresponding lease liabilities for the ROU assets has been recognised under other liabilities.

	2022 Rs 000	2021 Rs 000
As at 01st January	1,366,438	888,025
Impact of New Leases	573,460	755,568
Accretion of Interest (Note 4)	125,773	94,796
Leases Expired and Modified during the Year	(106,442)	(83,995)
Rentals Paid During the Year	(338,523)	(287,956)
As at 31st December (Note 30)	1,620,706	1,366,438

23.3 Maturity Analysis of Lease Liabilities

	2022			
	Amount Repayable Within 1 Year	Amount Repayable After 1 Year But Less Than 5 Years	Amount Repayable After 5 Years	Total
	Rs 000	Rs 000	Rs 000	Rs 000
Gross Lease	392,572	1,420,739	505,295	2,318,606
Finance Charges Allocated to Future Periods	(118,164)	(427,642)	(152,094)	(697,900)
Net Lease Liabilities	274,408	993,097	353,201	1,620,706

	2021			
	Amount Repayable Within 1 Year	Amount Repayable After 1 Year But Less Than 5 Years	Amount Repayable After 5 Years	Total
	Rs 000	Rs 000	Rs 000	Rs 000
Gross Lease	385,411	1,158,944	398,080	1,942,435
Finance Charges Allocated to Future Periods	(114,287)	(343,666)	(118,044)	(575,997)
Net Lease Liabilities	271,124	815,278	280,036	1,366,438

23.4 Sensitivity on Assumptions in ROU Assets

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the ROU assets and lease liabilities as at 31st December 2022. 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 ROU assets/lease liabilities for the year.

	2022			
	Sensitivity Effect on Statement of Financial Position		Sensitivity Effect on Statement of Comprehensive Income (Profit or Loss)	
	ROU Assets	Lease Liabilities	Depreciation	Interest Expense
	Rs 000	Rs 000	Rs 000	Rs 000
Increase/(Decrease) in Incremental Borrowing Rate				
1%	(75,078)	(66,875)	(8,580)	15,061
(1%)	79,611	70,868	9,048	(15,210)

	2021			
	Sensitivity Effect on Statement of Financial Position		Sensitivity Effect on Statement of Comprehensive Income (Profit or Loss)	
	ROU Assets	Lease Liabilities	Depreciation	Interest Expense
	Rs 000	Rs 000	Rs 000	Rs 000
Increase/(Decrease) in Incremental Borrowing Rate				
1%	(61,156)	(53,981)	(5,661)	10,024
(1%)	64,685	56,967	5,929	(10,097)

24 INTANGIBLE ASSETS

Accounting Policy

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes. The Bank's intangible assets include cost of core banking software licenses and other computer software.

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.

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.

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.

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 License	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.

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 value of the asset and are recognised in Profit or Loss.

Computer Software

24.1 Cost

	Total Rs 000
As at 01st January 2022	706,315
Additions	72,914
Disposals	-
As at 31st December 2022	779,229

24.2 Amortisation

	Total Rs 000
As at 01st January 2022	385,452
Amortisation Charge for the Year (Note 10)	53,728
Disposals	-
As at 31st December 2022	439,180

24.3 Net Book Value

	Total Rs 000
As at 31st December 2021	320,863
As at 31st December 2022	340,049

24.4 Intangible assets include the cost of core banking software license and other software.

24.5 There were no intangible asset items pledged as a security against liabilities as at the date of the Statement of Financial Position (2021 - Nil).

24.6 There were no borrowing costs directly related to intangible assets acquired during the year (2021 - Nil).

24.7 There were no impairment losses recognised to Profit or Loss during the year with regard to intangible assets (2021 - Nil).

25 OTHER ASSETS

	2022 Rs 000	2021 Rs 000
Deposits and Prepayments	559,288	236,407
Pre-paid Staff Cost (Note 25.1)	330,345	366,000
Reimbursement under Special Senior Citizen Deposit Scheme	1,054,753	702,741
Other Receivables (Note 25.2)	552,068	427,906
	2,496,454	1,733,054

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

25.1 The movement in Pre-paid Staff Cost during the year is as follows;

	2022 Rs 000	2021 Rs 000
As at 01st January	366,000	389,588
Arose Due to New Granting	40,448	47,023
Reversals Due to Settlements	(46,039)	(27,522)
Amortisation Charge for the Year (Note 9)	(30,064)	(43,089)
As at 31st December	330,345	366,000

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

26 DUE TO BANKS

	2022 Rs 000	2021 Rs 000
Call Money Borrowings	-	2,300,378
Refinance Borrowings	732,247	1,611,571
Balances with Foreign Banks	335,879	2,446
	1,068,126	3,914,395

The Bank has not had any defaults of capital, interest or other breaches with regard to any liability during the year (2021 - Nil).

The maturity analysis of due to banks is given in Note 41.

27 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS

27.1 Product-wise Analysis

	2022 Rs 000	2021 Rs 000
Demand Deposits	8,190,612	7,354,603
Savings Deposits	22,127,403	34,905,340
Time Deposits	130,769,723	101,519,268
Certificate of Deposits	1,135,753	2,408,089
Margin Deposits	309,968	246,516
	162,533,459	146,433,816

27.2 Currency-wise Analysis

	2022 Rs 000	2021 Rs 000
Sri Lankan Rupee	142,984,716	132,441,635
United States Dollar	16,045,760	10,636,528
Great Britain Pound	1,041,793	616,229
Australian Dollar	1,055,513	835,705
Euro	375,231	1,054,964
Others	1,030,446	848,755
	162,533,459	146,433,816

The maturity analysis of financial liabilities at amortised cost - due to depositors is given in Note 41.

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

	2022 Rs 000	2021 Rs 000
Unsecured Term Facility Borrowings (Note 40.6)	15,876,464	12,978,490
	15,876,464	12,978,490

The Bank has not had any defaults of capital, interest or other breaches with regard to any liability during the year (2021 - Nil).

The maturity analysis of financial liabilities at amortised cost - due to debt securities holders is given in Note 41.

28.1 Unsecured Term Facility Borrowings - Capital

	Senior		Total
	Fixed Rs 000	Floating Rs 000	Rs 000
As at 01st January 2022	4,775,767	8,163,250	12,939,017
Repayments during the Year (Note 40.6)	(758,829)	(2,530,000)	(3,288,829)
Effect of movement in Foreign Exchange Rate (Note 40.6)	1,681,155	4,443,052	6,124,207
As at 31st December 2022 (Note 28.2)	5,698,093	10,076,302	15,774,395

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

28.2 Details of Unsecured Term Facility Borrowings as at 31st December 2022 - Capital

Lender	Receipt Date	Maturity Date	Rate of Interest	Amount Outstanding	
				Original Currency 000	Local Currency Rs 000
GCPF	06th October 2017	07th October 2024	6 Month LIBOR + 3.75%	USD 2,000	726,220
GCPF	22nd December 2017	07th October 2024	6 Month LIBOR + 3.75%	USD 5,000	1,815,550
MSME	06th August 2020	06th August 2024	5.10%	USD 3,500	1,270,885
MSME	16th June 2020	16th June 2024	10.00%	Rs. 1,433,750	1,433,750
MSME	21st May 2021	21st Feb 2025	6 Month LIBOR + 4.50%	USD 10,750	3,903,432
MSME	05th October 2021	16th June 2024	10.00%	Rs. 451,688	451,688
MSME	17th December 2021	17th December 2024	6 Month LIBOR + 4.50%	USD 10,000	3,631,100
Blue Orchard Micro Finance Fund	27th July 2021	27th July 2023	5.00%	USD 400	145,244
Blue Orchard Micro Finance Fund	27th July 2021	27th July 2024	5.00%	USD 1,600	580,976
Covid-19 Emerging and Frontier Markets MSME Support Fund SCSp	09th July 2021	09th July 2023	5.00%	USD 1,000	363,110
Covid-19 Emerging and Frontier Markets MSME Support Fund SCSp	09th July 2021	09th July 2024	5.00%	USD 4,000	1,452,440
					15,774,395

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

29 OTHER PROVISIONS AND ACCRUALS

	2022 Rs 000	2021 Rs 000
Utility Payables	119,034	99,410
Other Accruals	116,854	96,783
	235,888	196,193

30 OTHER LIABILITIES

	2022 Rs 000	2021 Rs 000
Cheques Pending Realisation	47,504	644
Claims Payable	245,670	577,223
Allowance for Impairment (ECL) on Financial Guarantees and Documentary Credit (Note 30.3)	110,109	44,780
Lease Liabilities (Note 23.2)	1,620,706	1,366,438
Taxes and Other Statutory Payables (Note 30.1)	842,631	638,349
Items in Transit	347,273	184,354
Other Creditors (Note 30.2)	1,313,714	1,748,384
	4,527,607	4,560,172

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

30.1 Taxes and other statutory payables include VAT payable on financial services, normal VAT payable, social security contribution levy payables, etc.

30.2 Other creditors include other miscellaneous payables in the ordinary course of business.

30.3 Allowance for Impairment (ECL) on Financial Guarantees and Documentary Credit

	ECL Allowances as at 01/01/2022 Rs 000	Charge/ (Reversal) for the Year Rs 000	ECL Allowances as at 31/12/2022 Rs 000	ECL Allowances as at 01/01/2021 Rs 000	Charge/ (Reversal) for the Year Rs 000	ECL Allowances as at 31/12/2021 Rs 000
Financial Guarantees	30,522	55,468	85,990	13,202	17,320	30,522
Documentary Credit	14,258	9,861	24,119	6,101	8,157	14,258
	44,780	65,329	110,109	19,303	25,477	44,780

The nominal values of financial guarantees and documentary credit are disclosed in Note 42.

All financial guarantees and documentary credit outstanding as at the year end are 'Stage 1' exposures (2021-Stage 1).

The changes in ECLs of the financial guarantees and documentary credit were driven by the changes in gross size of the portfolios, changes in historical loss experience and changes in macro-economic conditions.

31 RETIREMENT BENEFIT OBLIGATIONS

Accounting Policy

Defined Contribution Plans Costs – Employees' Provident Fund and Employees' Trust Fund

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 under the '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'.

Defined Benefit Plan - Gratuity

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 'as recommended by LKAS 19 - Employee Benefits and resulting actuarial gains/losses are recognised in full in the Other Comprehensive Income (OCI). The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates that are denominated in the currency in which the benefits will be paid and that have terms of maturity approximating to the terms of the liability. Provision has been made in the Financial Statements for retiring gratuities from the first year of service for all employees, in conformity with LKAS 19 - Employee Benefits. 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 amounts recognised in the Statement of Comprehensive Income in respect of defined benefit plan costs are as follows;

31.1 Defined Benefit Plan Expenses

	2022 Rs 000	2021 Rs 000
Current Service Cost (Note 31.2)	46,594	41,100
Interest Cost (Note 31.2)	43,338	26,997
Components Recognised in Profit or Loss (Note 9)	89,932	68,097
Remeasurement of Net Defined Benefit Obligations		
Actuarial (Gains)/Losses (Note 31.2)	44,103	(36,409)
Components Recognised in Other Comprehensive Income	44,103	(36,409)

31.2 Movement in the Defined Benefit Plan - Retiring Gratuity Obligation

The movements in the present value of the defined benefit plan obligation are as follows:

	2022 Rs 000	2021 Rs 000
As at 01st January	376,851	385,674
Current Service Cost	46,594	41,100
Interest Cost	43,338	26,997
Actuarial (Gains)/Losses Due to Changes in Assumptions	44,103	(36,409)
Benefits Paid During the Year	(40,508)	(40,511)
As at 31st December	470,378	376,851

Actuarial valuation of retiring gratuity obligation as at 31st December 2022 was carried out by Mr. Pushpakumara Gunasekera, Associate of the Institute of Actuaries of Australia on behalf of Messrs. Smiles Global (Pvt) Limited, 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;

	2022	2021
Discount Rate (Note 31.3)	18% p.a	11.5% p.a
Future Salary Increment Rate	16% p.a	9% p.a
Normal Retirement Age	57-60 Years	57-60 Years
Staff Turnover Rate	10% p.a	8% p.a
Mortality	1967-70 Mortality table issued by the Institute of Actuaries, London	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 2023. Actuarial gains/(losses) on defined benefit plan are recognised in Other Comprehensive Income for the year.

31.3 Discount Rate

The Bank uses market yields at the end of the reporting date on Treasury Bonds issued by the Government of Sri Lanka for the remaining maturity corresponds with the remaining average working life of the employees of the Bank to determine the Discount Rate. However, due to the economic conditions prevailing in the country as at the reporting date, the exceptionally high Treasury Bond market yields would not be a reasonable reflection of the time value of money. Therefore, year-end Treasury Bond market yields have been adjusted for the credit risk spread to derive the rate used to discount the defined benefit obligation.

Such adjustment has been made based on the method set out in illustration 1 of the 'Frequently Asked Questions (FAQs) on Use of Discount Rate under the Uncertain Economic Conditions' issued by the Institute of Chartered Accountants of Sri Lanka. Credit Risk Spread has been calculated based on Sovereign Default and Recovery Rates published by Moody's. Adjusted Discount Rate has been calculated for tenors available, and estimated using the yield curve for any remaining maturities and corresponds with the remaining average working life of the employees of the Bank.

31.4 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible change in key assumptions employed with all other variables held constant in the retiring gratuity obligation measurement as at the reporting date. 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.

		2022		2021	
Increase/(Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Other Comprehensive Income (OCI)	Sensitivity Effect on Defined Benefit Obligation	Sensitivity Effect on Statement of Other Comprehensive Income (OCI)	Sensitivity Effect on Defined Benefit Obligation
		Rs 000	Rs 000	Rs 000	Rs 000
1%	-	25,325	(25,325)	24,479	(24,479)
(1%)	-	(28,262)	28,262	(27,821)	27,821
-	1%	(30,589)	30,589	(29,989)	29,989
-	(1%)	27,802	(27,802)	26,759	(26,759)

31.5 Maturity Profile of Defined Benefit Obligation Plan

The maturity profile of the defined benefit obligation plan as at the date of Statement of the Financial Position is given below;

	2022	2021
Weighted Average Duration of Defined Benefit Obligation (Years)	6.48	6.44
Average Time to Benefit Payout (Years)	8.86	10.52

31.6 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.

	2022 Rs 000	2021 Rs 000
Less than 1 Year	25,381	13,353
Between 1 - 2 Years	6,240	6,553
Between 2 - 5 Years	31,538	27,557
Over 5 Years	407,219	329,388
	470,378	376,851

32 SUBORDINATED DEBENTURES

Accounting Policy

Subordinated debentures represent funds borrowed for long term funding purposes which are subordinated to the other claims. Subsequent to initial recognition, subordinated debentures are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest Expense' in the Profit or Loss. Gains and losses are recognised in the Profit or Loss when the liabilities are de-recognised.

32.1 Amortised Cost

	2022 Rs 000	2021 Rs 000
Unlisted, Unsecured, Subordinated, Redeemable Debentures	872,839	872,839
	872,839	872,839

All above debentures are denominated in Sri Lankan Rupees.

32.2 Unlisted, Unsecured, Subordinated, Redeemable Debentures

2020/25 Issue

Debentures outstanding as at 31st December 2022, 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 000
2020/25 - Fixed Rate	14% p.a	Semi-Annually	17.07.2020	16.07.2025	820,000

The Bank has not had any defaults of capital interest or other breaches with regard to any liability during the year (2021-Nil).

The maturity analysis of these debentures is given in Note 41.

33 STATED CAPITAL

Ordinary Voting Shares

	2022		2021	
	No. of Shares	Amount Rs 000	No. of Shares	Amount Rs 000
Ordinary Shares - Voting	442,561,629	3,614,253	442,561,629	3,614,253
As at 31st December	442,561,629	3,614,253	442,561,629	3,614,253

There were no changes to the number of ordinary shares and the stated capital of the Bank during the year (2021 - Nil).

34 REVALUATION RESERVE

	Rs 000
As at 01st January 2021	962,721
Deferred Tax Effect on Revision of Statutory Income Tax Rate	53,311
Realisation of Revaluation Reserve	(9,567)
As at 01st January 2022	1,006,465
Revaluation of Freehold Land and Building	170,667
Deferred Tax Effect on Revision of Statutory Income Tax Rate	(78,695)
Realisation of Revaluation Reserve	(9,657)
As at 31st December 2022	1,088,780

35 STATUTORY RESERVE FUND

	Rs 000
As at 01st January 2021	641,125
Transferred During the Year	153,768
As at 01st January 2022	794,893
Transferred During the Year	100,097
As at 31st December 2022	894,990

35.1 Statutory Reserve Fund

The statutory reserve fund is maintained as required by Section 20 (1) and (2) of the Banking Act No. 30 of 1988. A sum equivalent to 5% of the Profit After Tax (Profit for the Year) should be transferred to the 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.

36 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

Financial assets and financial liabilities are measured on an on-going 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 2022	Financial Assets at Fair Value through Profit or Loss Rs 000	Financial Assets at Fair Value through Other Comprehensive Income Rs 000	Financial Assets and Liabilities at Amortised Cost Rs 000	Derivative Financial Instruments at Fair Value Rs 000	Total Rs 000
Financial Assets					
Cash and Cash Equivalents	-	-	5,374,284	-	5,374,284
Balances with Central Bank of Sri Lanka	-	-	5,308,803	-	5,308,803
Reverse Repurchase Agreements	-	-	2,003,276	-	2,003,276
Financial Assets at FVPL	2,239,757	-	-	-	2,239,757
Loans and Advances	-	-	144,148,110	-	144,148,110
Debt and Other Instruments	-	-	40,195,048	-	40,195,048
Financial Assets at FVOCI	-	3,752	-	-	3,752
Total Financial Assets	2,239,757	3,752	197,029,521	-	199,273,030
Financial Liabilities					
Due to Banks	-	-	1,068,126	-	1,068,126
Repurchase Agreements	-	-	40,526	-	40,526
Derivative Financial Instruments	-	-	-	56,097	56,097
Due to Depositors	-	-	162,533,459	-	162,533,459
Due to Debt Securities Holders	-	-	15,876,464	-	15,876,464
Subordinated Debentures	-	-	872,839	-	872,839
Other Liabilities	-	-	1,759,889	-	1,759,889
Total Financial Liabilities	-	-	182,151,303	56,097	182,207,400

As at 31st December 2021	Financial Assets at Fair Value through Profit or Loss Rs 000	Financial Assets at Fair Value through Other Comprehensive Income Rs 000	Financial Assets and Liabilities at Amortised Cost Rs 000	Derivative Financial Instruments at Fair Value Rs 000	Total Rs 000
Financial Assets					
Cash and Cash Equivalents	-	-	2,218,092	-	2,218,092
Balances with Central Bank of Sri Lanka	-	-	5,038,345	-	5,038,345
Derivative Financial Instruments	-	-	-	4,592	4,592
Loans and Advances	-	-	142,369,157	-	142,369,157
Debt and Other Instruments	-	-	34,110,583	-	34,110,583
Financial Assets at FVOCI	-	3,752	-	-	3,752
Total Financial Assets	-	3,752	183,736,177	4,592	183,744,521
Financial Liabilities					
Due to Banks	-	-	3,914,395	-	3,914,395
Repurchase Agreements	-	-	254,154	-	254,154
Derivative Financial Instruments	-	-	-	33	33
Due to Depositors	-	-	146,433,816	-	146,433,816
Due to Debt Securities Holders	-	-	12,978,490	-	12,978,490
Subordinated Debentures	-	-	872,839	-	872,839
Other Liabilities	-	-	1,437,148	-	1,437,148
Total Financial Liabilities	-	-	165,890,842	33	165,890,875

37 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

* In the principal market for the asset or liability
or
* In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account of 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.

37.1 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/ discounts.

(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

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 the Central Bank of Sri Lanka. The Bank uses quoted market prices in the active market as at the reporting date for Quoted Equities.

37.2 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.

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 date.

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.

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 2022	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
Financial Assets				
Financial Assets at FVPL				
- Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	2,239,757	-	-	2,239,757
Financial Assets at FVOCI	-	3,752	-	3,752
	2,239,757	3,752	-	2,243,509
Non-Financial Assets				
Land - Revalued (Note 22.5)	-	-	1,520,000	1,520,000
Building - Revalued (Note 22.5)	-	-	590,000	590,000
	-	-	2,110,000	2,110,000
Financial Liabilities				
Derivative Financial Instruments	-	56,097	-	56,097
	-	56,097	-	56,097

As at 31st December 2021	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
Financial Assets				
Derivative Financial Instruments	-	4,592	-	4,592
Financial Assets at FVOCI	-	3,752	-	3,752
	-	8,344	-	8,344
Non-Financial Assets				
Land - Revalued (Note 22.5)	-	-	1,420,100	1,420,100
Building - Revalued (Note 22.3)	-	-	464,623	464,623
	-	-	1,884,723	1,884,723
Financial Liabilities				
Derivative Financial Instruments	-	33	-	33
	-	33	-	33

b) The following table shows the fair value gains/(losses) recognised in Profit or Loss for the year relating to financial assets and liabilities at FVPL held at the year end.

	2022 Rs 000	2021 Rs 000
Financial Assets/Liabilities		
Derivative Financial Instruments	(60,656)	(9,448)
Financial Assets at Fair Value through Profit or Loss		
- Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	8,459	-
	(52,197)	(9,448)

37.3 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 liabilities that have a short term maturity, it is assumed that the carrying value approximates their fair value. This assumption is applied for Cash and Cash Equivalents, Balances with Central Bank of Sri Lanka and Reverse Repurchase Agreements. This assumption is also applied to Call Money Borrowings, Balances with Foreign Banks, Repurchase Agreements, Demand Deposits, Margin Deposits, Savings Accounts without a specific maturity, floating rate instruments and fixed rate instruments having maturities within 12 months.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities (other than assets and liabilities with maturities within 12 months) carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

Variable Rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence, the carrying value represents the fair value of the variable rate instruments.

Set out below is a comparison, by class, of the carrying value and fair value of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair value of non-financial assets and non-financial liabilities.

Notes to the Financial Statements

As at 31st December	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets				
Cash and Cash Equivalents	5,374,284	5,374,284	2,218,092	2,218,092
Balances with Central Bank of Sri Lanka	5,308,803	5,308,803	5,038,345	5,038,345
Reverse Repurchase Agreements	2,003,276	2,003,276	-	-
Loans and Advances - at Amortised Cost	144,148,110	142,233,393	142,369,157	143,769,199
Debt and Other Instruments - at Amortised Cost*	40,195,048	37,677,247	34,110,583	30,782,255
Total Financial Assets	197,029,521	192,597,003	183,736,177	181,807,891
Financial Liabilities				
Due to Banks	1,068,126	1,068,126	3,914,395	3,914,395
Repurchase Agreements	40,526	40,526	254,154	254,154
Due to Depositors - at Amortised Cost	162,533,459	161,503,186	146,433,816	147,364,409
Due to Debt Securities Holders - at Amortised Cost	15,876,464	15,326,027	12,978,490	13,003,064
Subordinated Debentures	872,839	668,896	872,839	863,083
Other Liabilities	1,759,889	1,450,865	1,437,148	1,669,718
Total Financial Liabilities	182,151,303	180,057,626	165,890,842	167,068,823

*Debt and other instruments include investments made in government Treasury Bills & Bonds, SLISBs and SLDBs. Fair value of Treasury Bills & Bonds is computed by using yield curves published by the Central Bank of Sri Lanka. For SLISBs and SLDBs the Bank assumed that the carrying value approximates their fair value considering the inactive market and other concerns.

38 RISK MANAGEMENT

38.1 Introduction

Risk is inherent in Bank's activities, but is managed through a process of on-going 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.

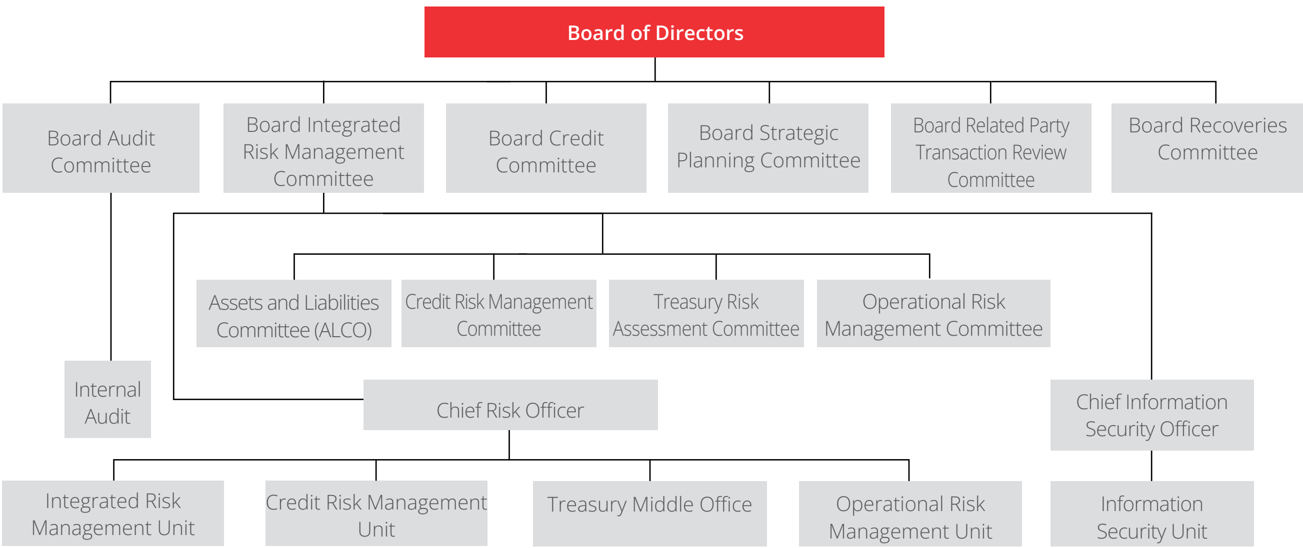
Risk Management Objectives, Policies and Processes

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 and Systems

The Bank's overall responsibility for risk management falls on the Board of Directors. Accordingly, the Bank has established a robust and pervasive risk culture and clear policies that defines the responsibilities of corporate and senior management personnel, subject to the oversight of the Board. There are committees at both the Board and the Management levels to ensure that all risks are appropriately managed and risk limits are established based on the appetite of the Bank.



Board Audit Committee

The Board Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls and risk management systems, internal audit process, and the Bank's process for monitoring compliance with legal and regulatory requirements, appointment of external auditors, determination of their fees, ensuring their objectivity and independence and maintaining high standards of good Corporate Governance practices to conform to highest ethical standards. The Board Audit Committee is assisted in these functions by Internal Audit Department. Internal Audit Department 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 Board 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 access the overall risk level of the Bank.

Board Related Party Transaction Review Committee

The Bank constituted Board Related Party Transaction Review Committee in order to assist the Board to review all related party transactions performed by the Bank. The committee monitors Bank's compliance with the Colombo Stock Exchange listing rules which ensure interest of the shareholders when entering into the related party transactions. The Committee independently reviews all related party transactions and provides observations to the Board of Directors if deem necessary.

Board Strategic Planning Committee

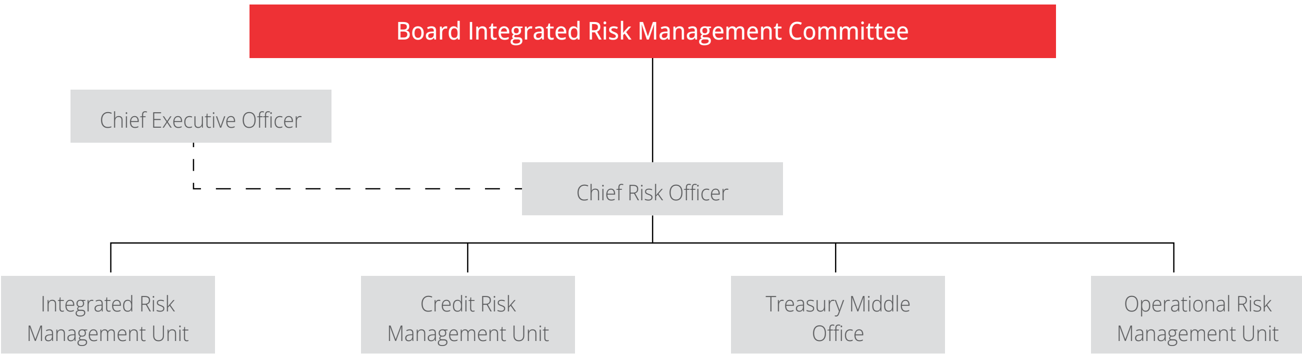
The Board Strategic Planning Committee is formed to ensure that sufficient attention is devoted to the strategic planning process at the Board level. The Committee discharges it's main responsibilities by approving the periodic strategic plan and significant amendments to the existing strategic plan and recommending to the Board, ensuring that the annual budget is prepared to accomplish the goals and objectives of the strategic plan and recommending the same to the Board, reviewing the actual performance against the strategic plan as well as the annual budget, reviewing the appropriateness of current vision, mission and strategic positioning of the Bank, approving all strategic investment decisions such as mergers and acquisitions and recommending the same to the Board, reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets.

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 while minimising potential non-performing advances to achieve sustainable growth and stability over the period of time. The main duties of the committee include establishing appropriate recovery strategies for NPAs and delinquent credit of the Bank, review performances against recovery targets that are agreed with respective Area Managers 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 who 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 appropriately 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 and Senior 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 closely for adherence. Delegated Authority limits have been assigned to suitable officers in the credit chain to control exposure to risks. Those outwit such limits are monitored and appropriate disciplinary actions are taken against them if deemed necessary.

Responding to Unprecedented Negative Macro-Economic Outlook

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. Sri Lankan economy presented signs of recovery from the impact of COVID-19 pandemic during the year 2022. However, it continued to present a negatively impacted unprecedented macro-economic outlook from late March 2022 mainly due to excessive sovereign debt, low foreign exchange reserves, shortages of essential items and inflationary pressures. Towards mitigating this risk, the Bank has taken several steps such as;

- Curtailing the growth of the asset book and promoting a limited lending growth in asset backed short term lending such as Pawning, secured SME lending and high-end Corporate facilities
- Expediting much needed deposit growth offering competitive rates
- Applying strict credit guidelines to mitigate credit risk and strengthening the collection and recovery process
- Keeping the net interest margin at the best possible levels through timely repricing of both assets and liabilities while managing the financial cost of funds at the lowest possible levels
- Implementing cost containment measures to create cost efficient culture within the Bank etc.

The management continuously monitors the impact of the significant deterioration of the macro-economic conditions of the country and the impact of the COVID-19 pandemic and takes necessary actions to manage its impact on the operations and performance of the Bank to ensure the business continuity.

38.2 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 which is one of the Bank's independent risk controlling units. 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 after detailed review. 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 risk limits. 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.

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 alphabetical rating denotes the borrowers' strength relating to repayment ability, financial condition, industry/business outlook and management quality. A separate numerical 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 'under-performing 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 (Stage 3) are managed by the Recoveries Department. This department is responsible for all aspects of the non-performing credit, restructuring of the credit, monitoring the value of the applicable collateral and 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 and regulatory requirements and adequate for the nature and complexity of the 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.

38.2.1 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.

38.2.2 Impairment Assessment

For accounting purposes, the Bank uses an Expected Credit Loss (ECL) model for the recognition of impaired 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 38.2.2.1).
- An explanation of the Bank's Probability of Default estimating process (Note 38.2.2.2).
- How the Bank defines, calculates and monitors the Probability of Default, Exposure at Default and Loss Given Default (Notes 38.2.2.2, 38.2.2.3 and 38.2.2.4 respectively).
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 38.2.2.5).
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note 38.2.2.7).
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note 2.9.6.2).

38.2.2.1 Definition of 'Default' and 'Cure'

The Bank considers a financial instrument as 'Defaulted' and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days-past-due on its contractual payments, in accordance with SLFRS 9 and relevant regulatory guidelines and directions. In addition to above the Bank considers all 'Non-Performing Credit Facilities' and 'Rescheduled Credit Facilities' as defined in the Banking Act Direction No. 13 of 2021 on 'Classification, Recognition and Measurement of Credit Facilities in Licensed Banks' as 'Stage 3 Credit Facilities'. The Bank considers interbank balances as 'Defaulted' and takes immediate action when the required intra-day 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 etc.

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.

38.2.2.2 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 PD's are given below;

As at 31st December 2022	Stage 1	Stage 2	Stage 3
	%	%	%
Loans and Advances			
Term Loans	0.29 - 18.58	10.65 - 88.44	100.00
Overdrafts	2.36 - 8.28	7.34 - 14.45	100.00
Trade Finance	0.54 - 3.13	6.17 - 9.88	100.00
Lease Rentals Receivable	2.64 - 3.42	4.20 - 10.97	100.00
Others*	0.11 - 28.71	0.62 - 35.92	100.00
Other Financial Assets			
Government of Sri Lanka Securities	0.00	50.00	-
Other Financial Assets	0.0001 - 30.00	-	-

As at 31st December 2021	Stage 1 %	Stage 2 %	Stage 3 %
Loans and Advances			
Term Loans	0.31 - 20.88	10.62 - 86.08	100.00
Overdrafts	2.48 - 8.29	7.59 - 17.33	100.00
Trade Finance	0.69 - 3.80	6.91 - 12.08	100.00
Lease Rentals Receivable	2.58 - 2.86	3.14 - 11.45	100.00
Others*	0.13 - 26.27	0.24 - 37.26	100.00
Other Financial Assets			
Government of Sri Lanka Securities	30.00	-	-
Other Financial Assets	0.0001 - 30.00	-	-

PDs are then adjusted for ECL calculations to incorporate forward looking information and SLFRS 9 stage classification of the exposures. This is repeated for each economic scenario as appropriate.

*'Others' include credit card advances, gold backed lending, margin trading advances and cheques & drafts purchased.

38.2.2.3 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 from the reporting date for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default within 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 modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios.

38.2.2.4 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 realised from any collateral held. The Bank computes LGDs for loans and advances for each credit portfolio having homogeneous risk characteristics.

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.

38.2.2.5 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;

- Contractual payments of a customer are more than 30 days-past-due.
- Credit rating of a borrower has been subsequently downgraded to B+ below under the Sri Lankan National Rating Scale by an External Credit Assessment Institutions (ECAI) (provided that the borrower is a rated customer).
- Reasonable and supportable forecasts of future economic conditions show a direct negative impact on the performance of the borrower or group.
- A significant change in the geographical location or natural catastrophe that directly impacts the performance of a borrower or group.
- The value of the collateral is significantly reduced and/or realisability of the collateral is doubtful.
- The borrower is subject to litigation that significantly affects the performance of the credit facility.
- Frequent changes in the Board of Directors or Senior Management of an institutional customer.
- Delay in commencement of business operations/projects for more than two years from the originally agreed date.
- Modification of terms resulting in concessions including extensions, deferment of payments, waiver of covenants etc. as a result of a credit deterioration of the borrower or following a default.
- The borrower is deceased or insolvent.
- The Bank is unable to find or contact the borrower.
- A fall of 50% or more in the turnover and/or profit before tax compared to the previous year for two consecutive years or erosion of net-worth of the borrower by 25% or more compared to the previous financial year.
- Restructure or Reschedulement of one or more credit facilities.
- Availability of any other factor that suggest the borrower will not be able to service the loan as agreed or 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 38.2.2.7), 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 various relief measures due to unprecedented adverse macro-economic conditions, an assessment of SICR has been determined based on various measures of the customers' current financial position and earnings capacity from which the facilities are categorised into risk categories. Customers in higher risk categories and those who have requested a prolong deferral extensions are classified as having a SICR. Base on the results of the risk assessment, required management overlays have been made.

38.2.2.6 Movements Between Stages

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

Further, restructured facilities up to two times are considered as 'Cured' upon a satisfactory performing period of 90 days subsequent to the first capital and/or interest installment of post-restructure is in place after an independent review by the Credit Risk Management Unit. Credit facilities restructured for more than two times and re-scheduled credit facilities are considered as 'Cured' upon satisfactory performing period of a minimum 180 days subsequent to the first capital and/or interest installment of post-restructure/post-reschedulement after the independent review by the Credit Risk Management Unit.

38.2.2.7 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 macro-economic factors within its assessments. These factors include GDP growth rate, unemployment rate, inflation rate, interest rate, exchange rates, changes in laws and regulations and other data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio.

The Bank groups exposures into smaller homogeneous portfolios, based on the internal and external characteristics of the loans and advances, as described below;

- Product Type
- Business Segment Type
- Industry Type
- Collateral Type
- Exposure Value Type

38.2.3 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 weightings in the current year is the continuing impact of unprecedented negative macro-economic conditions prevailing in the country. In addition to the base case economic forecast which reflects the negative consequences of unprecedented macro-economic conditions, 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.

	2022	2021
Base Case	25%	20%
Upside	5%	20%
Downside	70%	60%

Sensitivity Analysis

The following table outlines the impact of multiple economic scenarios on the allowance for impairment of financial assets;

As at 31st December 2022	Allowance for Impairment of Loans & Advances Rs 000
Scenario A - Actual	
Base Case - 25%, Upside - 5%, Downside - 70%	4,642,714
Scenario B	
Base Case - 20%, Upside - 0%, Downside - 80%	4,677,593
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	34,879
Scenario A - Actual	
Base Case - 25%, Upside - 5%, Downside - 70%	4,642,714
Scenario C	
Base Case - 30%, Upside - 10%, Downside - 60%	4,607,813
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(34,901)

As at 31st December 2021	Allowance for Impairment of Loans & Advances Rs 000
Scenario A - Actual	
Base Case - 20%, Upside - 20%, Downside - 60%	4,824,021
Scenario B	
Base Case - 15%, Upside - 15%, Downside - 70%	4,891,303
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	67,282
Scenario A - Actual	
Base Case - 20%, Upside - 20%, Downside - 60%	4,824,021
Scenario C	
Base Case - 25%, Upside - 25%, Downside - 50%	4,746,728
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(77,293)

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.

38.2.4 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, properties, 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 in the Credit Policy of the Bank. These Collaterals are evaluated independently by professional valuers. The management monitors the market value of collaterals, and will request additional collaterals 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. There are no significant changes in the quality of the collaterals or credit enhancements as a result of deterioration or changes in the collateral policies of the Bank during the year 2022. (2021 - Nil)

38.2.5 Maximum Exposure to Credit risk

31st December 2022	Maximum Exposure to Credit Risk	Government Securities	Cash Deposits	Immovable Property	Movable Property	Government Pension and Salary Assignments	Gold	Other	Exposure Covered by Collaterals	Net Exposure
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets										
Cash and Cash Equivalents (Note 40.1)	5,394,118	-	-	-	-	-	-	-	-	5,394,118
Balances with Central Bank of Sri Lanka	5,308,803	-	-	-	-	-	-	-	-	5,308,803
Reverse Repurchase Agreements	2,003,276	-	-	-	-	-	-	-	2,003,276	-
Financial Assets at FVPL	2,239,757	-	-	-	-	-	-	-	-	2,239,757
Loans and Advances - at Amortised Cost (Note 19)	154,079,309	-	11,148,624	19,462,739	9,244,279	52,403,136	23,817,255	22,046,138	138,122,171	15,957,138
Debt and Other Instruments - at Amortised Cost (Note 20)	45,084,117	-	-	-	-	-	-	-	-	45,084,117
Financial Assets - at FVOCI	3,752	-	-	-	-	-	-	-	-	3,752
	214,113,132	4,243,033	11,148,624	19,462,739	9,244,279	52,403,136	23,817,255	22,046,138	142,365,204	71,747,928
Other Credit Exposures										
Documentary Credit (Note 42.1)	1,253,878	-	-	-	-	-	-	-	-	1,253,878
Financial Guarantees (Note 42.1)	4,674,117	-	486,820	-	-	-	-	-	486,820	4,187,297
Undrawn Credit Commitments* (Note 42.1)	12,134,939	-	-	-	-	-	-	-	-	12,134,939
	18,062,934	-	486,820	-	-	-	-	-	486,820	17,576,114
	232,176,066	4,243,033	11,635,444	19,462,739	9,244,279	52,403,136	23,817,255	22,046,138	142,852,024	89,324,042

31st December 2021	Maximum Exposure to Credit Risk	Government Securities	Cash Deposits	Immovable Property	Movable Property	Government Pension and Salary Assignments	Gold	Other	Exposure Covered by Collaterals	Net Exposure
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets										
Cash and Cash Equivalents (Note 40.1)	2,225,376	-	-	-	-	-	-	-	-	2,225,376
Balances with Central Bank of Sri Lanka	5,038,345	-	-	-	-	-	-	-	-	5,038,345
Derivative Financial Instruments	4,592	-	-	-	-	-	-	-	-	4,592
Loans and Advances - at Amortised Cost (Note 19)	150,684,024	-	12,705,234	19,078,073	10,824,468	54,318,834	13,163,530	23,066,800	133,156,939	17,527,085
Debt and Other Instruments - at Amortised Cost (Note 20)	35,198,761	-	-	-	-	-	-	-	-	35,198,761
Financial Assets - at FVOCI	3,752	-	-	-	-	-	-	-	-	3,752
	193,154,850	-	12,705,234	19,078,073	10,824,468	54,318,834	13,163,530	23,066,800	133,156,939	59,997,911
Other Credit Exposures										
Documentary Credit (Note 42.1)	1,778,389	-	6,235	-	-	-	-	-	6,235	1,772,154
Financial Guarantees (Note 42.1)	3,807,053	-	487,019	-	-	-	-	-	487,019	3,320,034
Undrawn Credit Commitments* (Note 42.1)	15,729,762	-	-	-	-	-	-	-	-	15,729,762
	21,315,204	-	493,254	-	-	-	-	-	493,254	20,821,950
	214,470,054	-	13,198,488	19,078,073	10,824,468	54,318,834	13,163,530	23,066,800	133,650,193	80,819,861

*Credit risk mitigants relating to undrawn credit commitments are netted-off against utilised portion of respective credit facilities.

The Bank has not recognised an ECL allowance for the following financial assets because of the collateral.

	2022 Rs 000	2021 Rs 000
Reverse Repurchase Agreements	2,003,276	-
Fully Cash Backed Loans & Advances	11,148,624	6,971,367
	13,151,900	6,971,367

38.2.5.1 Maximum Exposure to Credit-Impaired (Stage 3) Loans and Advances

31st December 2022	Maximum Exposure to Credit Risk Rs 000	Cash and Deposits Rs 000	Immovable Property Rs 000	Movable Property Rs 000	Government Pension and Salary Assignments Rs 000	Gold Rs 000	Other Rs 000	Exposure Covered by Collaterals Rs 000	Net Exposure Rs 000
Credit-Impaired (Stage 3) Loans and Advances (Note 19)	12,999,103	4,371	4,919,254	564,431	318,657	17,649	5,673,277	11,497,639	1,501,464
	12,999,103	4,371	4,919,254	564,431	318,657	17,649	5,673,277	11,497,639	1,501,464

31st December 2021	Maximum Exposure to Credit Risk Rs 000	Cash and Deposits Rs 000	Immovable Property Rs 000	Movable Property Rs 000	Government Pension and Salary Assignments Rs 000	Gold Rs 000	Other Rs 000	Exposure Covered by Collaterals Rs 000	Net Exposure Rs 000
Credit-Impaired (Stage 3) Loans and Advances (Note 19)	10,607,615	8,016	2,251,596	444,830	247,985	24,221	5,604,163	8,580,811	2,026,804
	10,607,615	8,016	2,251,596	444,830	247,985	24,221	5,604,163	8,580,811	2,026,804

38.2.6 Modified Financial Assets and Forborne Loans

If the terms of a financial asset is 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.

38.2.6.1 Modifications Relating to Unprecedented Macro-Economic Conditions

The Bank extended various relief measures for customers impacted by COVID-19 and adverse macro-economic conditions, which include loan repayment deferrals (debt moratoriums), restructuring and reschedulement options.

The relief measures were considered to be continuations of the existing loans and were therefore, accounted for as non-substantial loan modifications. No significant modification losses were recognised in the Net Interest Income relating to aforementioned relief measures during the year 2022 (2021 - Nil).

Loans and advances with a gross carrying value amounting to Rs. 4,481,579,430/- were subject to prevailing adverse macro-economic conditions related relief measures and they were classified under either Stage 2 or Stage 3 as of 31st December 2022 and were subject to lifetime expected credit losses as at the reporting date.

38.2.6.2 Forborne Loans

From a risk management point of view, once an asset is forborne, the Bank's Recoveries Department and Credit Risk Management Unit continues to monitor the exposure until it is completely derecognised.

The table below shows the details of the forborne loans with the related modification loss suffered by the Bank during the year.

	2022 Rs 000	2021 Rs 000
Amortised Cost of Forborne Loans and Advances (Modified During the Year)	825,050	71,973
Net Modification Loss	3,121	44

38.2.7 Management Overlays and Model Adjustments

Management overlays reflect the additional impairment provisions recognised as a consequence of significant uncertainty emerged due to the unprecedented macro-economic conditions. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific borrower groups, sectors and segments.

Taking into consideration of the heightened credit risk due to significant depreciation of Sri Lankan Rupee, rising inflation, high interest rates, income tax and other tax hikes, continuation of import restrictions, shortage of essential supplies and the consequential pressure on disposable income levels of general public, the Bank further refined its impairment models to suit with the current market and economic conditions. Therefore, the impairment provisions recognised as management overlays were further increased during the year.

The Bank also increased its model based collective impairment provisions during the year by reviewing the macro-economic variables used for the computation of Economic Factor Adjustment (EFA) in line with the latest macro-economic conditions. Further, the management recognised additional impairment provisions through increasing the probability weightage for the worst-case (downside) scenario and reducing the weightages for the best-case (upside) and base-case scenarios (most-likely) in multiple economic scenario adjustment. The Bank continued to examine the individually significant customers including debt moratorium enjoying customers impacted by the prevailing adverse macro-economic conditions and ensured adequate provisions were made in the Financial Statements, as required. The Bank continued to downgrade the borrowers in elevated risk industries/segments between Stages (Stage 2 and Stage 3) as per the internal assessment, during the year 2022 as well.

The management overlays and model adjustments are approximately 15% of the total ECL provision as at 31st December 2022 (2021 - 17%).

Additional information and sensitivity analysis in respect of the inputs to the ECL model under probability weightages and multiple economic scenarios are provided in Note 38.2.3.

38.2.8 Credit Quality by Class of Financial Assets

The Bank manages the credit quality of financial assets by using Days-Past-Due (DPD) and results of the internal risk assessments.

38.2.8.1 Credit Risk Exposure for Each Internal Borrower Risk Rating

The Bank had developed Borrower Risk Rating Models internally for the borrowers in Corporate and SME segments and also part of the Retail segment. Retails borrowers who enjoys schematised retail facilities are not rated using this model. These rating models were introduced in January 2019 and existing borrowers with revolving facilities in the stated segments also been rated using this model at the time of carrying out annual reviews. The borrowers who enjoy facilities against cash deposits only have been tagged as 'Fully Cash Backed (FCB)'. When a facility of a client classified as Stage 3, the borrower will be considered under 'Default' category irrespective of the exiting Borrower Risk Rating (BRR) scale of the client.

The capital outstanding of clients who have been rated using the Bank's BRR models is as follows.

Internal Borrower Rating Scale	Risk Profile	2022 Amount Rs 000	2021 Amount Rs 000
AAA	Minimum risk	20,816	68,851
AA	Marginal risk	5,732,661	6,827,776
A	Modest risk	12,347,014	13,980,573
BBB	Average risk	12,348,520	11,612,189
BB	Marginally acceptable risk	2,130,389	3,026,694
B	High Risk	629,195	833,323
C	Caution	686,231	465,643
D	Default	5,691,224	3,382,272
FCB	Fully Cash Backed	11,879,555	9,046,308
Grand Total		51,465,605	49,243,629

38.2.9 Analysis of Risk Concentration

38.2.9.1 Concentration by Client/Counterparty

The Bank's concentrations of risk are managed by client/counterparty, by industry sector and by geographical region. The maximum credit exposure to any customer or a group counterparty as of 31st December 2022 was Rs. 2,260,026,798/- (2021 : Rs. 1,222,597,000/-), before taking account of collateral.

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

38.2.9.2 Concentration by Industry Sector

As at 31st December 2022	Government	Agriculture, Forestry and Fishing	Manufacturing	Tourism	Transportation and Storage	Construction and Housing	Wholesale and Retail Sale
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash and Cash Equivalents	2,059,357	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	5,308,803	-	-	-	-	-	-
Reverse Repurchase Agreements	-	-	-	-	-	-	-
Financial Assets at FVPL	2,239,757	-	-	-	-	-	-
Loans and Advances - at Amortised Cost	-	26,588,189	14,779,759	3,184,859	792,371	37,277,147	14,059,196
Debt and Other Instruments - at Amortised Cost	45,084,117	-	-	-	-	-	-
Financial Assets at FVOCI	-	-	-	-	-	-	-
	54,692,034	26,588,189	14,779,759	3,184,859	792,371	37,277,147	14,059,196

As at 31st December 2021	Government	Agriculture, Forestry and Fishing	Manufacturing	Tourism	Transportation and Storage	Construction & Housing	Wholesale and Retail Sale
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash and Cash Equivalents	1,720,424	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	5,038,345	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Loans and Advances - at Amortised Cost	-	24,266,583	17,264,975	3,162,179	761,837	41,167,808	15,139,109
Debt and Other Instruments - at Amortised Cost	35,198,761	-	-	-	-	-	-
Financial Assets at FVOCI	-	-	-	-	-	-	-
	41,957,530	24,266,583	17,264,975	3,162,179	761,837	41,167,808	15,139,109

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 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
-	3,334,761	-	-	-	-	-	-	5,394,118
-	-	-	-	-	-	-	-	5,308,803
-	2,003,276	-	-	-	-	-	-	2,003,276
-	-	-	-	-	-	-	-	2,239,757
282,915	7,351,567	154,948	2,705,354	567,344	822,666	624,911	44,888,083	154,079,309
-	-	-	-	-	-	-	-	45,084,117
-	3,752	-	-	-	-	-	-	3,752
282,915	12,693,356	154,948	2,705,354	567,344	822,666	624,911	44,888,083	214,113,132

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 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
-	504,952	-	-	-	-	-	-	2,225,376
-	-	-	-	-	-	-	-	5,038,345
-	4,592	-	-	-	-	-	-	4,592
335,176	7,833,598	193,555	807,824	816,972	792,069	646,530	37,495,809	150,684,024
-	-	-	-	-	-	-	-	35,198,761
-	3,752	-	-	-	-	-	-	3,752
335,176	8,346,894	193,555	807,824	816,972	792,069	646,530	37,495,809	193,154,850

38.2.9.3 Concentration by Geography

Geographical concentration for loans and advances within Sri Lanka is given below.

Province	2022 Rs 000	2021 Rs 000
Central	17,732,660	17,331,938
Eastern	5,639,622	4,506,146
North Central	5,088,538	5,071,022
North Western	9,980,784	9,157,049
Northern	5,433,285	4,381,664
Sabaragamuwa	6,851,192	6,423,272
Southern	10,634,229	10,132,658
Uva	3,715,820	3,502,021
Western	89,003,179	90,178,254
Total	154,079,309	150,684,024

38.3 Liquidity Risk

Liquidity Risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Hence, the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis.

38.3.1 Management of Liquidity Risk

The Bank manages liquidity risk in accordance with regulatory guidelines and accepted best practices. The objective of the Bank's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and that market access remains cost effective. The Bank's liquidity risk management framework is designed to identify, measure and manage the liquidity position in a timely manner. The Assets and Liabilities Committee (ALCO) is responsible for managing this risk through continuous monitoring of the set benchmarks and controlling risks by adopting appropriate strategies through advances, deposits and investment products. Contractual maturities of assets and liabilities, sensitivity of assets and liabilities, key liquidity ratios and monthly liquidity gaps are reviewed at ALCO meetings as measures to liquidity. The Bank maintains a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flows.

The Bank's Liquidity Contingency Plan is a detailed action plan document approved by the Board of Directors of the Bank indicating possible warning indicators, monitoring mechanism and the process for escalation. The plan details the specific action steps and identifies key individuals responsible for the specific action tasks. To limit liquidity risk, the Bank has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. Intra-day liquidity management is about managing the daily payments and cash flows. The Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment systems.

The contractual maturities of assets and liabilities of the Bank as at the reporting date are detailed in Note 41.

The policy of the Bank is to maintain adequate liquidity at all times, at all locations and for all currencies and hence to be in a position in the normal course of business, to meet obligations, repay depositors and fulfill commitments. As a part of liquidity management, the Bank maintains borrowing relationships to ensure the continued access to diverse market of funding sources. The Bank's sound credit rating together with excellent market reputation has enabled the Bank to secure ample call lines with local and foreign Banks.

In addition, the Bank maintains a Statutory Deposit with the Central Bank of Sri Lanka equal to 4% (2021 - 4%) of Rupee deposit liabilities of the Domestic Banking Unit. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of Statutory Liquid Asset Ratio to customer liabilities, to reflect market conditions. The significant liquidity ratios during the year were as follows:

Advances to Deposit Ratio (ADR)

	2022	2021
Average	103.29%	97.92%
Year-End	96.56%	105.72%

The Bank stresses the importance of maintaining an adequate deposit base as the key source of financing loans to customers. This is monitored using the Advances to Deposit Ratio (ADR), which compares Loans and Advances (capital) as a percentage of customers deposits (capital). Cheques and drafts purchased which are deemed to be liquid, are excluded from the advances to deposit ratio.

Statutory Liquid Asset Ratio (SLAR)

	2022	2021
Average		
Total Bank	21.60%	N/A
Domestic Banking Unit (DBU)	23.64%	29.25%
Foreign Currency Banking Unit (FCBU)	76.55%	49.87%
Year-End		
Total Bank (Minimum Requirement - 20%)	21.60%	N/A
Domestic Banking Unit (Minimum Requirement - 20%)	N/A	24.18%
Foreign Currency Banking Unit (Minimum Requirement - 20%)	N/A	58.42%

The Bank considers Cash Balances, Balances with Licensed Commercial Banks, Money at Call, Balances with Banks Abroad, Treasury Bills/Bonds and Securities issued or guaranteed by the Government of Sri Lanka, Sri Lanka Development Bonds, Sri Lanka International Sovereign Bonds, Standing Deposit Facilities Investments, Gilt Edged Securities, Import Bills, Export Bills and Items in the Process of Collection as 'Liquid Assets' for the purpose of SLAR calculation.

As per the requirement of Banking Act Direction No. 08 of 2022, banks are required to maintain SLAR on a consolidated basis for the overall Bank commencing from 01st December 2022, whereas for the previous year banks were required to maintain SLAR for DBU and FCBU separately.

38.3.2 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 for both Sri Lankan Rupees as well as all currencies throughout the year.

High Quality Liquidity Assets are categorised into two categories.

(a) Level 1 Assets: Include cash in hand, qualifying reserves with Central Bank of Sri Lanka and qualifying marketable securities that attract 0% risk weight under Basel III Capital Adequacy Framework.

(b) Level 2 Assets: Include Level 2A assets and Level 2B assets.

Level 2A Assets: Include qualifying marketable securities and qualifying non-financial corporate debt securities that attract a 20% risk weight under Basel III Capital Adequacy Framework and qualifying investments in gilt 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.

	2022	2021
Average		
- Rupee LCR	167.73%	191.49%
- All Currency LCR	158.97%	222.09%
(Minimum Requirement 2022 - 90%, 2021 - 100%)		
- Rupee LCR	253.11%	135.47%
- All Currency LCR	226.09%	146.83%

38.3.3 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 deposit retention history.

As at 31st December 2022	Up to 3 Months Rs 000	3 to 12 Months Rs 000	1 to 5 Years Rs 000	More than 5 Years Rs 000	Total Rs 000
Financial Assets					
Cash and Cash Equivalents	5,374,284	-	-	-	5,374,284
Balances with Central Bank of Sri Lanka	5,308,803	-	-	-	5,308,803
Reverse Repurchase Agreements	2,010,440	-	-	-	2,010,440
Financial Assets at FVPL	2,239,757	-	-	-	2,239,757
Loans and Advances - at Amortised Cost	58,463,243	28,808,519	64,532,907	43,266,818	195,071,487
Debt and Other Instruments - at Amortised Cost	14,205,577	13,141,241	12,623,913	6,310,707	46,281,438
Financial Assets at FVOCI	-	-	-	3,752	3,752
Total Undiscounted Financial Assets	87,602,104	41,949,760	77,156,820	49,581,277	256,289,961
Financial Liabilities					
Due to Banks	335,878	373,034	180,026	298,526	1,187,464
Repurchase Agreements	32,462	8,640	-	-	41,102
Derivative Financial Instruments	56,097	-	-	-	56,097
Due to Depositors - at Amortised Cost	81,829,777	71,263,012	25,358,809	2,536,809	180,988,407
Due to Debt Securities Holders - at Amortised Cost	90,679	1,705,946	16,521,727	-	18,318,352
Subordinated Debentures	57,872	56,928	1,049,600	-	1,164,400
Other Liabilities	127,894	276,580	860,506	494,909	1,759,889
Total Undiscounted Financial Liabilities	82,530,659	73,684,140	43,970,668	3,330,244	203,515,711
Net Undiscounted Financial Assets/(Liabilities)	5,071,445	(31,734,380)	33,186,152	46,251,033	52,774,250

As at 31st December 2021	Up to 3 Months Rs 000	3 to 12 Months Rs 000	1 to 5 Years Rs 000	More than 5 Years Rs 000	Total Rs 000
Financial Assets					
Cash and Cash Equivalents	2,218,092	-	-	-	2,218,092
Balances with Central Bank of Sri Lanka	5,038,345	-	-	-	5,038,345
Derivative Financial Instruments	4,592	-	-	-	4,592
Loans and Advances - at Amortised Cost	48,342,349	32,521,537	65,174,731	35,030,077	181,068,694
Debt and Other Instruments - at Amortised Cost	10,476,134	3,571,471	19,171,080	4,577,116	37,795,801
Financial Assets at FVOCI	-	-	-	3,752	3,752
Total Undiscounted Financial Assets	66,079,512	36,093,008	84,345,811	39,610,945	226,129,276
Financial Liabilities					
Due to Banks	2,707,382	1,021,183	239,125	-	3,967,690
Repurchase Agreements	242,132	12,712	-	-	254,154
Derivative Financial Instruments	33	-	-	-	33
Due to Depositors - at Amortised Cost	77,487,471	58,787,615	13,655,610	1,716,364	151,647,060
Due to Debt Securities Holders - at Amortised Cost	528,512	3,363,200	10,700,236	-	14,591,948
Subordinated Debentures	52,839	-	820,000	-	872,839
Other Liabilities	108,133	229,169	819,798	280,048	1,437,148
Total Undiscounted Financial Liabilities	81,126,502	63,413,879	26,234,769	1,996,412	172,771,562
Net Undiscounted Financial Assets/(Liabilities)	(15,046,990)	(27,320,871)	58,111,042	37,614,533	53,357,714

38.3.4 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 2022	Less than 3 Months Rs 000	3 to 12 Months Rs 000	1 to 5 Years Rs 000	Over 5 Years Rs 000	Total Rs 000
Commitments and Contingencies					
Financial Guarantees	1,699,322	2,604,521	336,798	33,476	4,674,117
Documentary Credit	1,020,912	232,966	-	-	1,253,878
Currency Swaps	19,432,396	-	-	-	19,432,396
Undrawn Credit Commitments	12,134,939	-	-	-	12,134,939
Total (Note 42.1)	34,287,569	2,837,487	336,798	33,476	37,495,330

As at 31st December 2021	Less than 3 Months Rs 000	3 to 12 Months Rs 000	1 to 5 Years Rs 000	Over 5 Years Rs 000	Total Rs 000
Commitments and Contingencies					
Financial Guarantees	1,637,031	1,848,235	320,926	861	3,807,053
Documentary Credit	1,106,945	671,444	-	-	1,778,389
Forward Foreign Exchange Contracts	709,518	-	-	-	709,518
Currency Swaps	14,400,665	1,354,500	-	-	15,755,165
Undrawn Credit Commitments	15,729,762	-	-	-	15,729,762
Total (Note 42.1)	33,583,921	3,874,179	320,926	861	37,779,887

38.4 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Bank's income or the value of its holdings of financial instruments. The Bank has placed a special emphasis on the effect of market risk on fixed income securities, investments and forex positions.

Management of Market Risk

The primary objective of market risk management is to ensure that the Bank optimises that the risk reward relationship and does not expose to unacceptable losses outside its risk appetite.

The Board Integrated Risk Management Committee reviews the risk goals set for market risk management on a quarterly basis and provides valuable input and direction. These goals are compared with results achieved and are subject to a comprehensive discussion for decision making for way forward. In particular, the limits imposed by the regulator and control measures adopted for compliance are carefully monitored.

The Assets and Liabilities Committee (ALCO), in keeping with its Terms of Reference (TOR) approved by the Board, decides on short term and long term strategies of the Bank for the overall management of Assets and Liabilities based on specific needs and prevailing market situation. ALCO reviews interest rate risk, liquidity risk, Bank interest rates with competitor rates etc.

The Board approved comprehensive policy documents on Market and Liquidity Risk management, Investments, and Stress Testing in place at Bank to mitigate the market risks. In addition, a policy document defining the responsibilities of each treasury units i.e. front, back and middle office is in place. The Strategies and policies are being continuously updated according to the evolving business requirements of the Bank as well as regulatory requirements. Treasury Middle Office functions as an independent unit reporting to Chief Risk Officer.

Treasury Middle Office of the Bank monitors the comprehensive framework of Treasury operating limits approved by the Board, including open position limits, dealer limits, counter party limits, gap limits, Foreign Currency Banking Unit and Domestic operation limits on a daily basis and takes prompt action when necessary. Separate risk goals are set for market risk management and on a quarterly basis and Board Integrated Risk Management Committee reviews these risk goals and provides valuable input and direction.

38.4.1 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.

Interest Rate Benchmark Reform

Interest Rate Benchmark Reform (IBOR), a fundamental reform of major interest rate benchmark is being undertaken globally, replacing certain interbank offered rates (IBORs) with alternative nearly risk-free rates.

The Bank has exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives. The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan agreements through bilateral negotiation with lenders, updating of contractual terms and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk. The Bank has commenced a process to evaluate the impact from this reform on its financial instruments.

This process involved evaluating the extent to which loans and advances, loan commitments, financial liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform, how to manage communication about IBOR reform with counterparties and the changes required for the existing credit policies.

Interest Rate Sensitivity

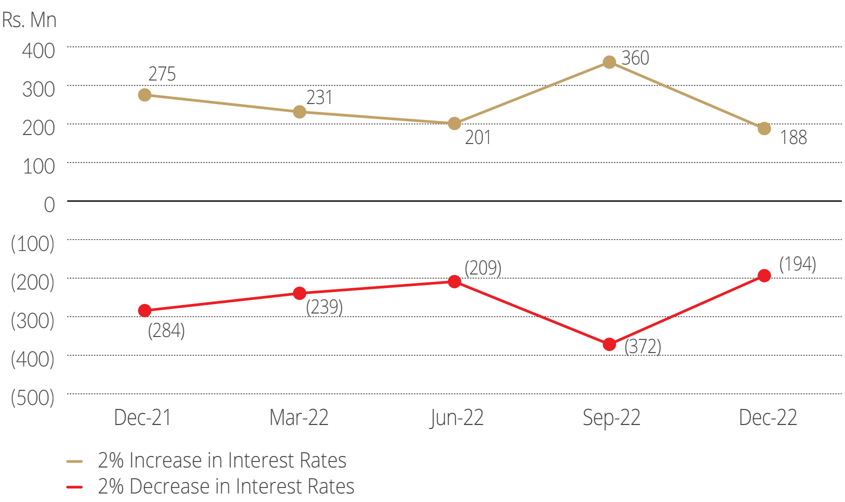
The interest rate sensitivity of Banks portfolio depends on the characteristics of the financial instruments that make up the portfolio. The interest rate sensitivity of a financial instrument depends on maturity and reprising characteristics of the financial instruments.

The Bank presently prepares the sensitivity of assets and liabilities according to CBSL guideline for interest rate sensitive assets and liabilities in prescribed time bands which is presented to Bank's ALCO on a monthly basis. Gaps are identified between assets and liabilities and the same is used to prepare the Interest Rate Risk Report. The below computation is based on the rate sensitive assets and liabilities which are to be matured or re-priced within one year.

	2022	2021
Increase in Interest Rates (Basis Points)	200 bps	200 bps
Effect on Profit or Loss and Equity (Rs'000)	188,075	275,338
Decrease in Interest Rates (Basis Points)	(200 bps)	(200 bps)
Effect on Profit or Loss and Equity (Rs'000)	(193,541)	(284,150)

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

Impact on Statement of Profit or Loss due to Interest Rate Shocks



Interest Rate Sensitivity Analysis

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities. The Bank's financial assets and liabilities are included at carrying amount and categorised by earlier of contractual re-pricing or maturity dates.

Notes to the Financial Statements

As at 31st December 2022	Interest Bearing				Non-Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	5,374,284	5,374,284
Balances with Central Bank of Sri Lanka	15,120	-	-	-	5,158,683	5,308,803
Reverse Repurchase Agreements	2,003,276	-	-	-	-	2,003,276
Financial Assets at FVPL	2,239,757	-	-	-	-	2,239,757
Loans and Advances - at Amortised Cost	77,184,313	39,985,904	19,395,563	7,582,330	-	144,148,110
Debt and Other Instruments - at Amortised Cost	13,994,150	11,737,388	8,949,549	5,513,961	-	40,195,048
Financial Assets at FVOCI	-	-	-	-	3,752	3,752
Total Financial Assets	95,571,616	51,723,292	28,345,112	13,096,291	10,536,719	199,273,030
Financial Liabilities						
Due to Banks	-	354,132	130,765	247,350	335,879	1,068,126
Repurchase Agreements	32,438	8,088	-	-	-	40,526
Derivative Financial Instruments	-	-	-	-	56,097	56,097
Due to Depositors - at Amortised Cost	74,427,363	66,220,780	13,000,481	384,254	8,500,581	162,533,459
Due to Debt Securities Holders - at Amortised Cost	86,098	7,005,109	8,785,257	-	-	15,876,464
Subordinated Debentures	52,839	-	820,000	-	-	872,839
Other Liabilities	127,894	276,580	860,506	494,909	-	1,759,889
Total Financial Liabilities	74,726,632	73,864,689	23,597,009	1,126,513	8,892,557	182,207,400
Total Interest Rate Sensitivity Gap	20,844,984	(22,141,397)	4,748,103	11,969,778	1,644,162	17,065,630

As at 31st December 2021	Interest Bearing				Non-Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	2,218,092	2,218,092
Balances with Central Bank of Sri Lanka	300,041	-	-	-	4,738,304	5,038,345
Derivative Financial Instruments	-	-	-	-	4,592	4,592
Loans and Advances - at Amortised Cost	96,085,513	28,443,850	14,812,176	3,027,618	-	142,369,157
Debt and Other Instruments - at Amortised Cost	12,174,973	3,221,049	14,311,660	4,402,901	-	34,110,583
Financial Assets at FVOCI	-	-	-	-	3,752	3,752
Total Financial Assets	108,560,527	31,664,899	29,123,836	7,430,519	6,964,740	183,744,521
Financial Liabilities						
Due to Banks	2,702,787	1,003,493	205,669	-	2,446	3,914,395
Repurchase Agreements	241,706	12,448	-	-	-	254,154
Derivative Financial Instruments	-	-	-	-	33	33
Due to Depositors - at Amortised Cost	75,325,138	56,886,998	5,063,231	1,557,330	7,601,119	146,433,816
Due to Debt Securities holders - at Amortised Cost	512,621	6,418,932	6,046,937	-	-	12,978,490
Subordinated Debentures	52,839	-	820,000	-	-	872,839
Other Liabilities	108,133	229,169	819,798	280,048	-	1,437,148
Total Financial Liabilities	78,943,223	64,551,040	12,955,637	1,837,378	7,603,598	165,890,875
Total Interest Rate Sensitivity Gap	29,317,263	(32,886,141)	16,168,199	5,593,142	(338,817)	17,853,646

38.4.2 Equity Price Risk

Equity price risk arises from the possibility that equity prices will fluctuate affecting the value of quoted equities.

Management of Equity Price Risk

The Bank does not hold any investment for strategic purposes other than the insignificant unquoted investments which are held for regulatory purposes.

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.

38.4.3 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.

Notes to the Financial Statements

Given below are the foreign currency exposures and their rupee equivalent in the major currencies, in which the Bank trades in:

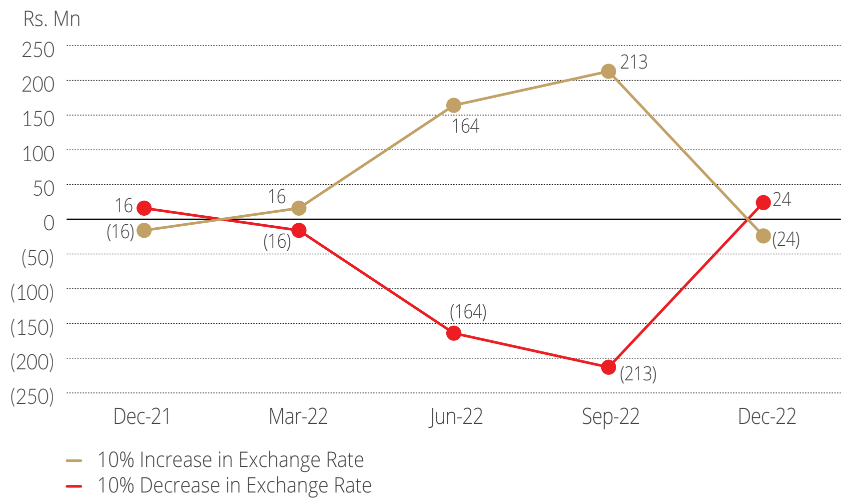
	In Original Foreign Currency		Functional Currency of the Bank	
	2022	2021	2022	2021
	000	000	Rs 000	Rs 000
Net Foreign Currency Exposure				
Great Britain Pound	2	12	779	3,395
United States Dollar	(3,179)	(837)	(1,154,446)	(169,898)
Euro	9	13	3,570	2,996
Japanese Yen	327,773	(3,109)	902,094	(5,483)

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 the Profit or Loss is shown in the table below:

	NOP as at 31.12.2022		NOP as at 31.12.2021	
	USD 000	Rs 000	USD 000	Rs 000
NOP	(665)	(241,408)	(784)	(159,246)
At shock levels of %	Revised Rupee Position	Effect on Profit or Loss	Revised Rupee Position	Effect on Profit or Loss
	Rs.	Rs.	Rs.	Rs.
5	(253,479)	(12,070)	(167,208)	(7,962)
10	(265,549)	(24,141)	(175,170)	(15,925)
15	(277,619)	(36,211)	(183,133)	(23,887)

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

Impact on Statement of Profit or Loss due to Increase/(Decrease) in Exchange Rate by 10%



38.4.4 Volatilities in Market Interest Rates and Exchange Rates

Volatilities in market interest rates, equity prices and exchange rates are inherent due to macro-economic factors available from time to time. The Bank is exposed to minimal degree of interest rate risk due to existence of a significant financial instrument book of floating and short-term nature. The Bank manages interest rate risk on net basis rather than on gross basis. Due to existence of insignificant net open position, the Bank is not exposed to greater degree of currency risk.

38.5 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.

38.6 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 2022	Sri Lanka Rs 000	Asia Rs 000	America Rs 000	Europe Rs 000	Oceania Rs 000
Balances with Banks	85,818	178,684	583,196	1,629,675	857,388
Loans and Advances	151,833,755	2,011,037	213,139	21,378	-

As at 31st December 2021	Sri Lanka Rs 000	Asia Rs 000	America Rs 000	Europe Rs 000	Oceania Rs 000
Balances with Banks	19,377	85,794	296,233	97,817	5,731
Loans and Advances	147,896,874	2,626,468	136,468	20,034	4,180

Rest of the financial asset categories does not include exposures outside the territorial boundaries of Sri Lanka, as such are not presented separately.

39 NET ASSET VALUE PER ORDINARY SHARE

	2022	2021
Total Equity Holders Funds (Rs. 000)	20,616,548	18,553,508
Number of Ordinary Shares in Issue (Note 33)	442,561,629	442,561,629
Net Assets Value Per Share (Rs.)	46.58	41.92

40 ADDITIONAL CASH FLOW INFORMATION

40.1 Cash and Cash Equivalents for Cash Flow Purpose

	2022 Rs 000	2021 Rs 000
Cash in Hand (Note 14)	2,059,357	1,720,424
Balances with Local and Foreign Banks (Note 14)	3,334,761	504,952
	5,394,118	2,225,376

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.

40.2 Change in Operating Assets

	2022 Rs 000	2021 Rs 000
Balances with Central Bank of Sri Lanka	(270,458)	5,266,003
Reverse Repurchase Agreements	(2,003,276)	1,530,441
Derivative Financial Instruments	4,592	88,420
Financial Assets at Fair Value through Profit or Loss	(2,239,757)	-
Loans and Advances - at Amortised Cost	(2,916,529)	(20,833,287)
Debt and Other Instruments - at Amortised Cost	(7,729,565)	(561,587)
Financial Assets at Fair Value through Other Comprehensive Income	-	2,406
Other Assets	(1,263,827)	(1,367,347)
	(16,418,820)	(15,874,951)

40.3 Change in Operating Liabilities

	2022 Rs 000	2021 Rs 000
Due to Banks	(2,846,269)	1,051,018
Repurchase Agreements	(213,628)	(644,497)
Derivative Financial Instruments	56,064	(78,972)
Due to Depositors - at Amortised Cost	16,099,643	5,354,109
Due to Debt Securities Holders - at Amortised Cost	6,120,273	306,829
Other Provisions and Accruals	39,695	(14,671)
Other Liabilities	114,856	1,196,810
	19,370,634	7,170,626

40.4 Other Non-Cash Items Included in Profit Before Tax

	2022 Rs 000	2021 Rs 000
Depreciation of Property, Plant and Equipment (Note 10)	143,915	140,884
Amortisation of Right-of-Use assets (Note 10)	283,846	268,911
Amortisation of Intangible Assets (Note 10)	53,728	50,044
Loss on Disposal of Property, Plant and Equipment	1,302	1,143
Impairment Charges (Note 8)	2,860,555	2,370,452
Defined Benefit Plan Expenses (Note 9)	89,932	68,097
	3,433,278	2,899,531

40.5 Operational Cash Flows from Interest and Dividends

	2022 Rs 000	2021 Rs 000
Interest Paid	15,123,373	8,134,115
Interest Received	24,176,913	18,854,944
Dividends Received	1,465	1,999

40.6 Changes in Liabilities Arising from Financing Activities

	Stated Capital Rs 000	Unsecured Term Borrowings Rs 000	Subordinated Debentures Rs 000	Lease Liabilities Rs 000	Total Liabilities from Financing Activities Rs 000
At 01st January 2022	3,614,253	12,978,490	872,839	1,366,438	18,832,020
Cash Flows from Financing Activities					
- Repayments	-	(3,288,829)	-	(212,750)	(3,501,579)
- Interest Payments	-	(1,042,443)	(114,800)	(125,773)	(1,283,016)
Effect of Movement in Foreign Exchange Rate	-	6,124,207	-	-	6,124,207
Others*	-	1,105,039	114,800	592,791	1,812,630
As at 31st December 2022	3,614,253	15,876,464	872,839	1,620,706	21,984,262

	Stated Capital Rs 000	Unsecured Term Borrowings Rs 000	Subordinated Debentures Rs 000	Lease Liabilities Rs 000	Total Liabilities from Financing Activities Rs 000
At 01st January 2021	3,614,253	10,637,140	872,839	888,025	16,012,257
Cash Flows from Financing Activities					
- Receipts	-	6,843,767	-	-	6,843,767
- Repayments	-	(4,796,394)	-	(193,160)	(4,989,554)
- Interest Payments	-	(801,921)	(114,800)	(94,796)	(1,011,517)
Effect of Movement in Foreign Exchange Rate	-	315,700	-	-	315,700
Others *	-	780,198	114,800	766,369	1,661,367
As at 31st December 2021	3,614,253	12,978,490	872,839	1,366,438	18,832,020

*'Others' row includes the effect of accrued but not yet paid interest on unsecured term borrowings, subordinated debentures, lease liabilities and change in transaction costs.

41 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities presented according to when they are expected to be recovered or settled contractually. Financial assets at FVPL including derivatives have been classified to be repaid within 12 months, regardless of its actual contractual maturities.

As at 31st December 2022	Within 12 Months Rs 000	After 12 Months Rs 000	Total Rs 000
Assets			
Cash and Cash Equivalents	5,374,284	-	5,374,284
Balances with Central Bank of Sri Lanka	5,308,803	-	5,308,803
Reverse Repurchase Agreements	2,003,276	-	2,003,276
Financial Assets at FVPL	2,239,757	-	2,239,757
Loans and Advances -at Amortised Cost	72,760,084	71,388,026	144,148,110
Debt and Other Instrument - at Amortised Cost	25,731,538	14,463,510	40,195,048
Financial Assets at FVOCI	-	3,752	3,752
Property, Plant and Equipment	-	2,586,149	2,586,149
Right-of-Use Assets	269,884	1,324,102	1,593,986
Intangible Assets	-	340,049	340,049
Deferred Tax Assets	-	1,759,444	1,759,444
Other Assets	2,271,864	224,590	2,496,454
Total Assets	115,959,490	92,089,622	208,049,112
Liabilities			
Due to Banks	690,010	378,116	1,068,126
Repurchase Agreements	40,526	-	40,526
Derivative Financial Instruments	56,097	-	56,097
Due to Depositors - at Amortised Cost	144,316,551	18,216,908	162,533,459
Due to Debt Securities Holders - at Amortised Cost	631,858	15,244,606	15,876,464
Subordinated Debentures	52,839	820,000	872,839
Retirement Benefit Obligations	25,381	444,997	470,378
Current Tax Liabilities	1,751,180	-	1,751,180
Other Provisions and Accruals	235,888	-	235,888
Other Liabilities	3,112,362	1,415,245	4,527,607
Total Liabilities	150,912,692	36,519,872	187,432,564
Net	(34,953,202)	55,569,750	20,616,548

As at 31st December 2021	Within 12 Months Rs 000	After 12 Months Rs 000	Total Rs 000
Assets			
Cash and Cash Equivalents	2,218,092	-	2,218,092
Balances with Central Bank of Sri Lanka	5,038,345	-	5,038,345
Derivative Financial Instruments	4,592	-	4,592
Loans and Advances -at Amortised Cost	69,808,928	72,560,229	142,369,157
Debt and Other Instrument - at Amortised Cost	12,955,565	21,155,018	34,110,583
Financial Assets at FVOCI	-	3,752	3,752
Property, Plant and Equipment	-	2,335,826	2,335,826
Right-of-Use Assets	273,300	1,104,106	1,377,406
Intangible Assets	-	320,863	320,863
Other Assets	1,285,987	447,067	1,733,054
Total Assets	91,584,809	97,926,861	189,511,670
Liabilities			
Due to Banks	3,708,726	205,669	3,914,395
Repurchase Agreements	254,154	-	254,154
Derivative Financial Instruments	33	-	33
Due to Depositors - at Amortised Cost	133,123,554	13,310,262	146,433,816
Due to Debt Securities Holders - at Amortised Cost	3,328,302	9,650,188	12,978,490
Subordinated Debentures	52,839	820,000	872,839
Retirement Benefit Obligations	13,353	363,498	376,851
Current Tax Liabilities	1,252,818	-	1,252,818
Deferred Tax Liabilities	-	118,401	118,401
Other Provisions and Accruals	196,193	-	196,193
Other Liabilities	3,460,326	1,099,846	4,560,172
Total Liabilities	145,390,298	25,567,864	170,958,162
Net	(53,805,489)	72,358,997	18,553,508

42 COMMITMENTS AND CONTINGENCIES

Accounting Policy

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.

The Bank enters into various irrevocable commitments and contingent liabilities to meet the financial needs of customers. 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 a 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 a part of the overall risk of the Bank.

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 Charges'. 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.

Details of commitments and contingencies are given below;

42.1 Commitments and Contingencies

As at 31st December	2022 Rs 000	2021 Rs 000
Financial Guarantees	4,674,117	3,807,053
Documentary Credit	1,253,878	1,778,389
Forward Foreign Exchange Contracts	-	709,518
Currency Swaps	19,432,396	15,755,165
Undrawn Credit Commitments	12,134,939	15,729,762
Total (Note 38.3.4)	37,495,330	37,779,887

Impairment allowances on undrawn credit commitments are included under impairment allowances for respective loan products in Note 19.6, whereas impairment allowances on financial guarantees and documentary credit are given under Note 30 - Other Liabilities.

There are no significant capital commitments as at the date of the Statement of Financial Position (2021-Nil).

42.2 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.

43 LEASE ARRANGEMENTS

43.1 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 2022	Total Future Minimum Lease Payments Rs 000	Unearned Finance Income Rs 000	Present Value of Minimum Lease Payments Rs 000
Lease Rentals Receivable			
- Within One Year	4,688,194	897,945	3,790,249
- After One Year But Not More Than Five Years	6,113,935	950,367	5,163,568
- More Than Five Years	846	39	807
Total (Note 19.1)	10,802,975	1,848,351	8,954,624

As at 31st December 2021	Total Future Minimum Lease Payments Rs 000	Unearned Finance Income Rs 000	Present Value of Minimum Lease Payments Rs 000
Lease Rentals Receivable			
- Within One Year	4,920,530	1,031,669	3,888,861
After One Year But Not More Than Five Years	7,810,985	1,233,236	6,577,749
- More Than Five Years	9,344	595	8,749
Total (Note 19.1)	12,740,859	2,265,500	10,475,359

Accumulated allowance for uncollectible minimum lease payments are disclosed in Note 19.6.

44 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 44.4 and Note 44.5.

44.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

44.2 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.

44.3 Compensation of Key Management Personnel of the Bank

The following represents the compensation paid to Key Management Personnel of the Bank.

	2022 Rs 000	2021 Rs 000
Short-term Benefits	68,665	63,837
Retirement Benefits	4,255	3,833
	72,920	67,670

Short-term benefits represent salaries, bonuses and other related expenses of Chief Executive Officer/Managing 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.

44.4 Transactions with Key Management Personnel of the Bank

The Bank enters into transactions, arrangements and agreements with the Key Management Personnel and the 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 due from the Key Management Personnel and their Close Family Members.

As at 31st December	2022			2021		
	Limit Rs 000	Closing Balance Rs 000	Average Balance Rs 000	Limit Rs 000	Closing Balance Rs 000	Average Balance Rs 000
Assets						
Loans and Advances	1,600	177	97	1,100	17	27,393
Liabilities						
Deposits and Borrowings	-	120,941	132,334	-	143,726	293,717
Subordinated Debentures	-	50,000	50,000	-	50,000	50,000

	2022 Rs 000	2021 Rs 000
Income and Expenses		
Interest Income	531	1,210
Interest Expense	20,936	36,087
Fee and Commission Income	56	-

44.5 Transactions with Other Related Parties of the Bank

In addition to transactions with the 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 provision for individual impairment losses on amounts due from the related parties.

As at 31st December	2022			2021		
	Limit Rs 000	Closing Balance Rs 000	Average Balance Rs 000	Limit Rs 000	Closing Balance Rs 000	Average Balance Rs 000
Liabilities						
Deposits	-	-	-	-	-	552

	2022 Rs 000	2021 Rs 000
Income and Expenses		
Interest Expense	-	1
Fee and Commission Income	-	2

45 EVENTS AFTER THE REPORTING DATE

No events after the reporting date that require adjustments to or disclosures in the Financial Statements.

46 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 maintains 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 relevant 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 D-SIBs (Domestic Systemically Important Banks) including Pan Asia Banking Corporation PLC need to comply with following minimum capital ratio requirements with effective from 1st January 2019.

Components of Capital	Requirement
Common Equity Tier 1 Capital Ratio Including Capital Conservation Buffer	7.00%
Total Tier 1 Capital Ratio Including Capital Conservation Buffer	8.50%
Total Capital Ratio Including Capital Conservation Buffer	12.50%

The Central Bank of Sri Lanka circular No. 04 of 2022 on "Regulatory Requirements amidst prevailing extraordinary Macro-economic conditions" allowed banks to drawdown the Capital Conservation Buffer (CCB) up to 2.5% as a measure to maintain adequate capital to meet any losses. Banks which drawdown CCBs are required to submit Board approved capital augmentation plans to Central Bank of Sri Lanka on rebuilding CCB within 03 years. The Bank does not anticipate to drawdown CCB during the period ahead given that the Bank's Capital Ratios stay well above the minimum requirements.

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 and Deferred Tax Assets. The other component of Tier 1 Capital is Additional Tier 1 Capital (CAT 1).

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 14.09%, Total Tier 1 Capital Ratio of 14.09% and Total Capital Ratio of 16.07% as at 31st December 2022 which remained well above the minimum regulatory requirements.

In addition to above, the Bank is required to enhance its Total Common Equity Tier 1 Capital to Rs. 20 billion by 31st December 2023 as required by the Banking Act Directions on 'Enhancement of Minimum Capital Requirements of Banks. The Bank's Common Equity Tier 1 Capital as at 31st December 2022, stood at Rs.19.5 billion. The Board of Directors are confident that the shortfall of Rs.0.5 billion could be met through a internally generated funds of the Bank during year 2023.

The Bank expects to submit revised capital augmentation plan to meet the above capital requirements to the Central Bank of Sri Lanka with the annual internal Capital Adequacy Assessment Process. (ICAAP Document by 31st May 2023 in accordance with 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)'.

47 SEGMENT REPORTING

Accounting Policy

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 the management primarily relies on net interest income 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.

	2022			
	Retail and SME Banking Rs 000	Corporate Banking Rs 000	Treasury and Investments Rs 000	Total Rs 000
Gross Income				
Third Party	21,072,260	2,441,909	2,298,975	25,813,144
Inter-Segment	4,063,634	(845,256)	(3,218,380)	-
Total Income	25,135,894	1,596,653	(919,405)	25,813,144
Extract of Results				
Interest Income	19,877,249	2,646,494	4,102,416	26,626,159
Interest Expense	(15,175,848)	(1,484,456)	(510,398)	(17,170,702)
Inter - Segment	4,063,634	(845,256)	(3,218,380)	-
Net Interest Income	8,765,035	316,782	373,638	9,455,457
Fee and Commission Income	1,601,175	153,746	-	1,754,921
Fee and Commission Expense	(30,554)	-	(5,558)	(36,112)
Net Fee and Commission Income	1,570,621	153,746	(5,558)	1,718,809
Net Gain from Trading	-	-	111,315	111,315
Other Operating Losses	(406,162)	(358,332)	(1,914,757)	(2,679,251)
Total Operating Income/(Losses)	9,929,494	112,197	(1,435,362)	8,606,330
Impairment Charges	(1,210,423)	14,803	(1,664,935)	(2,860,555)
Net Operating Income	8,719,071	127,000	(3,100,297)	5,745,775
Depreciation of Property, Plant and Equipment	143,128	209	577	143,915
Amortisation of Intangible Assets	49,419	-	4,309	53,728
Segment Result	8,526,524	126,791	(3,105,183)	5,548,132
Un-allocated Expenses	-	-	-	4,458,714
Operating Profit Before VAT on Financial Services	-	-	-	1,089,418
Value Added Tax on Financial Services	-	-	-	439,565
Profit Before Tax	-	-	-	649,853
Income Tax Expense	-	-	-	(1,352,087)
Profit for the Year	-	-	-	2,001,940
Other Comprehensive Income for the Year	-	-	-	61,100
Total Comprehensive Income for the Year	-	-	-	2,063,040
Segment Assets	134,730,323	13,885,919	45,801,784	194,418,026
Unallocated Assets	-	-	-	13,631,086
Total Assets	134,730,323	13,885,919	45,801,784	208,049,112
Segment Liabilities	163,084,054	10,383,164	6,980,294	180,447,512
Unallocated Liabilities and Equity				27,601,600
Total Liabilities and Equity	163,084,054	10,383,164	6,980,294	208,049,112
Cash Flows generated from/(used in) Operating Activities	16,365,623	4,997,752	(13,185,394)	8,177,981
Cash Flows generated from/(used in) Investing Activities				
Capital Expenditure				
Property, Plant & Equipment	(151,822)	(56)	(20)	(151,898)
Intangible Assets	(72,914)	-	-	(72,914)
Proceeds from Sale of Property, Plant & Equipment	168	-	-	168
Cash Flows used in Financing Activities	(4,263,678)	(519,560)	(1357)	(4,784,595)

	2021			
	Retail and SME Banking	Corporate Banking	Treasury and Investments	Total
	Rs 000	Rs 000	Rs 000	Rs 000
Gross Income				
Third Party	16,846,510	1,055,658	3,201,366	21,103,534
Inter-Segment	2,207,352	(270,580)	(1,936,772)	-
Total Income	19,053,862	785,078	1,264,594	21,103,534
Extract of Results				
Interest Income	14,983,026	1,040,274	2,775,001	18,798,301
Interest Expense	(8,538,651)	(493,980)	(123,934)	(9,156,565)
Inter - Segment	2,207,352	(270,580)	(1,936,772)	-
Net Interest Income	8,651,727	275,714	714,295	9,641,736
Fee and Commission Income	1,805,847	15,381	-	1,821,228
Fee and Commission Expense	(30,397)	-	(7,898)	(38,295)
Net Fee and Commission Income	1,775,450	15,381	(7,898)	1,782,933
Net Gains from Trading	-	-	92,257	92,257
Other Operating Income	57,637	3	334,108	391,748
Total Operating Income	10,484,814	291,098	1,132,762	11,908,674
Impairment Charges	(943,500)	(703,295)	(723,657)	(2,370,452)
Net Operating Income	9,541,314	(412,197)	409,105	9,538,222
Depreciation of Property, Plant and Equipment	140,037	232	615	140,884
Amortisation of Intangible Assets	45,736	-	4,308	50,044
Segment Result	9,355,541	(412,429)	404,182	9,347,294
Un-allocated Expenses	-	-	-	4,436,064
Operating Profit Before VAT on Financial Services	-	-	-	4,911,230
Value Added Tax on Financial Services	-	-	-	877,577
Profit Before Tax	-	-	-	4,033,653
Income Tax Expense	-	-	-	958,295
Profit for the Year	-	-	-	3,075,358
Other Comprehensive Income for the Year	-	-	-	80,982
Total Comprehensive Income for the Year	-	-	-	3,156,340
Segment Assets	132,363,658	13,989,704	34,662,738	181,016,100
Unallocated Assets	-	-	-	8,495,570
Total Assets	132,363,658	13,989,704	34,662,738	189,511,670
Segment Liabilities	145,726,715	11,761,011	6,966,003	164,453,729
Unallocated Liabilities and Equity	-	-	-	25,057,941
Total Liabilities and Equity	145,726,715	11,761,011	6,966,003	189,511,670
Cash Flows generated from/(used in) Operating Activities	(6,890,903)	(2,645,567)	8,196,043	(1,340,427)
Cash Flows generated from/(used in) Investing Activities				
Capital Expenditure				
Property, Plant & Equipment	(169,771)	(112)	(319)	(170,202)
Intangible Assets	(24,210)	-	-	(24,210)
Proceeds from Sale of Property, Plant & Equipment	231	-	-	231
Cash Flows/generated from/(used in) Financing Activities	2,337,999	(1,494,046)	(1,257)	842,696

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 36 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 19.4 and 20.2 to the Financial Statements
	(iv)	Reconciliation of the allowance account for credit losses by class of financial assets.	Note 14.1, 19.6, 20.4 and 30.3 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
	(iv)	Interest income on impaired (non-performing) financial assets.	Note 4.3 to the Financial Statements
	(v)	Profit generated through all interbank foreign exchange transactions including end user transactions where one leg is in the interbank market.	Note 6.2 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
1.3.2	Financial liabilities designated as at FVPL		
	(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

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

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 FVPL 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 FVPL 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 37 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.	Note 21 to the Financial Statements - Financial Assets at FVOCI

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 38 to the Financial Statements - Risk Management
2.1.2	Management's objectives, policies, and processes for managing those risks		Note 38 to the Financial Statements - Risk Management
2.1.3	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 38 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 38 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 38.2 to the Financial Statements - Risk Management Report on pages 200 to 214
		- Process and the methodology for valuing trading positions by type of instrument. - The risk governance structure, scope and main features of risk measurement systems, Qualitative information on stress testing, Strategies and processes to manage, hedge and mitigate risks that arise from the bank's business model.	Note 38 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 249 to 250
	(ii)	Liquidity Risk	
		- A maturity analysis of financial liabilities. - Description of approach to risk management.	Note 38.3 to the Financial Statements - Risk Management Report on pages 214 to 218
		- Trend in key liquidity ratios.	Note 38.3 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 251 to 253

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

	(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.	Note 38.4 to the Financial Statements - Risk Management Report on pages 218 to 222
		- Systems and controls to ensure that the valuation estimates are prudent and reliable. - Description of the process and the methodology for valuing trading positions by type of instrument.	Note 37 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 Page 251
	(iv)	Operational Risk	
		- Activities that have been outsourced together with parties and basis for payment. - Due diligence tests of third-party service providers.	Page 70 of the Annual Report 2022 - Risk Management
		- 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 Page 253
	(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.	Note 38.4 to the Financial Statements - Risk Management Report on pages 218 to 222
		- 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.	Not Applicable

	(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).	Note 38.4.1 to the Financial Statements - Risk Management Report on pages 218 to 221
2.2.3	Information on concentration of risk		Note 38.2.9 to the Financial Statements - Risk Management Report on pages 211 to 214
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 243 to 248
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 242 to 253

Basel III Pillar 3 Disclosures

INTRODUCTION

The Bank recognises, best corporate governance practices jointly with effective risk management techniques which directs the Bank towards the sustainable achievement in business goals while staying above the minimum regulatory requirements. The Banks usually operate in a vulnerable environment and are highly exposed to risk. Therefore, the Bank places a higher emphasis on a continuous basis on improving risk management processes and operating with sufficient level of capital to support its risk absorption capacity and business expansions. The Bank's risk management team has to play a vital role in maintaining prudential risk management practices across the Bank which enables early detection of down side risks in all its businesses and other operations.

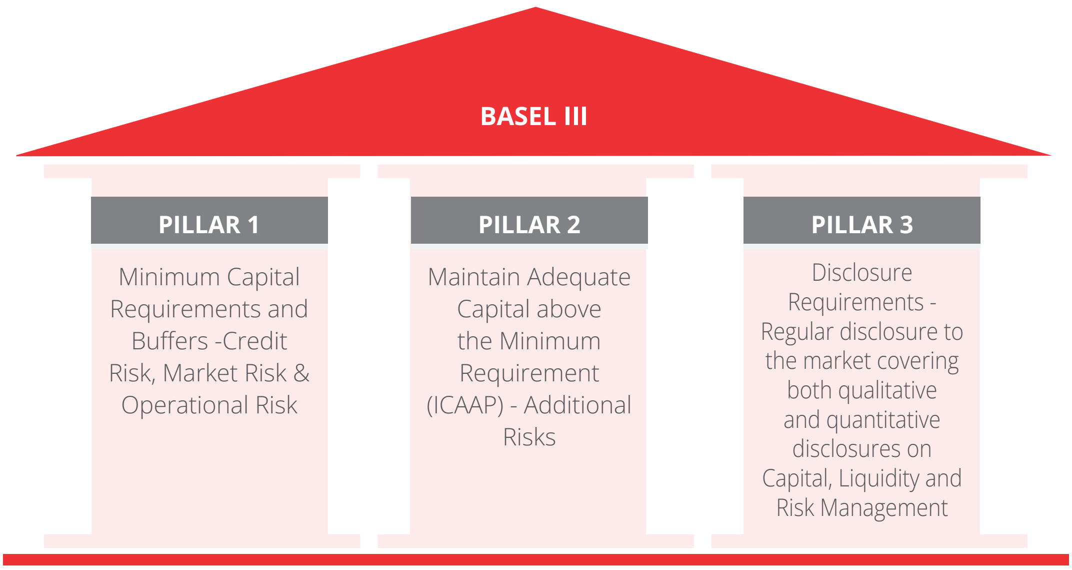
Based on empirical data and close analysis of market behaviour, the Bank is of the belief that effective investment in robust risk management practices would facilitate in mitigating the credit, market, operational and the other risk factors facing the Bank.

Further use of market discipline is deemed to be an important driver in the enhancement of the risk management system from the Bank as well as the stakeholders' perspective. Therefore, the Bank believes comprehensive disclosure of capital level in relation to the credit risk, market risk and operational risk levels would fulfill the expectations of the regulators as well as other stakeholders at large.

SCOPE OF BASEL III FRAMEWORK

The Basel Committee on Bank Supervision (BCBS) has implemented a set of capital, liquidity and funding reforms known as "Basel III". The objectives of reforms are to increase the quality, consistency and transparency of capital to enhance the risk management framework of Licensed Banks.

Accordingly, the Central Bank of Sri Lanka has issued Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's) on 29th December 2016. As per the direction, Capital Requirements applicable for a Licensed Commercial Bank from 1st July 2017 onwards consist of three pillars.



PILLAR 1 - MINIMUM CAPITAL REQUIREMENTS AND BUFFERS

Commencing from 01st July 2017, every LCB & LSB need to comply with minimum capital ratios and the buffers as prescribed in the direction. According to the latest regulatory requirements enforced by CBSL, the Bank is required to maintain the capital in 3 tiers as mentioned below.

Minimum Capital Ratio Requirement

Components of Capital	Minimum Requirement
Common Equity Tier 1 Capital Ratio Including Capital Conservation Buffer	7.00%
Total Tier 1 Capital Ratio Including Capital Conservation Buffer	8.50%
Total Capital Ratio Including Capital Conservation Buffer	12.50%

However in view of adverse impact caused by current economic downturn, CBSL has permitted licensed banks to drawdown the Capital Conservation Buffer (CCB) up to 2.5% subject to conditions stipulated in Basel III directions.

CAPITAL BUFFERS

All banks are required to hold additional capital buffers over & above the minimum CET I, Total Tier I and Total Capital Adequacy levels.

- Capital Conservation Buffer (CCB)
- High Loss Absorbency (HLA) requirement for Domestic Systemically Important Banks (D-SIBs)
- Countercyclical Buffer

Higher Loss Absorbency (HLA) Requirements for Domestic Systemically Important Banks

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 require 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 is as follows:

Bucket	HLA Requirement (CET 1 as a % of Risk-Weighted Assets)
3	2.0
2	1.5
1	1.0

Licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs), from time to time have to maintain additional Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1 Capital.

However as per eligible criteria 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. 211.65 billion as at 31st December 2022.

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 is 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 the Bank's risk management approach and risk management related to key risk exposures are disclosed on an annual basis.

Key Regulatory Ratios - Capital and Liquidity

As at	31.12.2022	31.12.2021
Regulatory Capital (Rs '000)		
Total Common Equity Tier 1 Capital	19,527,769	17,547,043
Common Equity Tier 1 Capital	17,378,312	17,176,217
Tier 1 Capital	17,378,312	17,176,217
Total Capital	19,818,150	19,852,075
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement -7.00%)	14.09%	13.82%
Tier 1 Capital Ratio (Minimum Requirement -8.50%)	14.09%	13.82%
Total Capital Ratio (Minimum Requirement -12.50%)	16.07%	15.97%
Leverage Ratio (Minimum Requirement -3%)	8.21%	8.40%
Regulatory Liquidity		
Statutory Liquid Assets DBU (Rs'000)	N/A	40,823,849
Statutory Liquid Assets OBU (USD'000)	N/A	32,240
Statutory Liquid Assets Bank (Rs'000)	39,717,442	N/A
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	N/A	24.18
Foreign Currency Banking Unit (%)	N/A	58.42
Bank (%)	21.60	N/A
Liquidity Coverage Ratio (%)		
Rupee (Minimum Requirement -90%)	253.11	135.47
All Currency (Minimum Requirement -90%)	226.09	146.83
Net Stable Funding Ratio (%) (Minimum Requirement -90%)	144.41	126.71

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 behaviour of the material risk exposures. If any adverse movement is monitored in recovery patterns of the credit exposures on a regular basis, Credit Monitoring Unit of the Bank stays on alert for early detection and recovery process before moving to Stage 3 category.

PROJECTED CAPITAL INITIATIVES/ CAPITAL SOURCES

An assessment of the future capital requirement of the Bank is carried out by taking in to account several factors which include but not limited to the future strategy, growth projection and regulatory requirement. The adequacy of current and future capital is continuously monitored quite closely in line with the Bank's short, medium and long-term goals stated in the strategic plan and 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 2022 with the contribution of internal capital generation over the period.

Basel III Computation of Capital Ratios

As at	31.12.2022 Rs 000	31.12.2021 Rs 000
Common Equity Tier 1 (CET1) Capital after Adjustments	17,378,312	17,176,217
Common Equity Tier 1 (CET1) Capital	19,477,806	17,497,080
Stated Capital	3,614,253	3,614,253
Reserve Fund	894,990	794,893
Published Retained Earnings	15,018,525	13,137,896
Published Accumulated Other Comprehensive Income (OCI)	(49,963)	(49,963)
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	2,099,494	320,863
Goodwill (net)	-	-
Intangible Assets (net)	340,049	320,863
Deferred Tax Assets	1,759,445	-
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	2,439,837	2,675,858
Tier 2 Capital	2,439,837	2,675,858
Qualifying Tier 2 Capital Instruments	410,000	615,000
Revaluation Gains	653,564	660,978
Stage 1 and 50% of stage 2 impairment provisions	1,376,274	1,399,881
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	17,378,312	17,176,217
Total Tier 1 Capital	17,378,312	17,176,217
Total Capital	19,818,150	19,852,075
Total Risk Weighted Assets (RWA)	123,295,174	124,297,568
RWAs for Credit Risk	110,101,886	111,990,461
RWAs for Market Risk	1,228,766	173,527
RWAs for Operational Risk	11,964,522	12,133,581
CET1 Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	14.09	13.82
of which: Capital Conservation Buffer (%)	2.50	2.50
Total Tier 1 Capital Adequacy Ratio (%)	14.09	13.82
Total Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	16.07	15.97
of which: Capital Conservation Buffer (%)	2.50	2.50

Regulatory Changes/ Capital Initiatives over the Period

The Bank's capital components changed during the year 2022 due to following;

- Tier 1 Capital has been changed during the period due to retention of profits generated in 2022 in full.
- Tier 2 Capital has been changed due to movements in impairment provision for stage 1 & stage 2 assets and discount of subordinated debenture value over the remaining maturity period.

LEVERAGE RATIO

The Leverage Ratio to act 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 of Sri Lanka 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. Minimum Leverage Ratio requirement for licensed banks is 3%.

As at	31.12.2022 Rs 000	31.12.2021 Rs 000
Tier 1 Capital	17,378,312	17,176,217
Total Exposures	211,648,275	204,500,338
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	203,192,352	187,649,592
Derivative Exposures	137,345	11,707,531
Securities Financing Transaction Exposures	4,571,590	1,842,810
Other Off-Balance Sheet Exposures	3,746,987	3,300,405
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	8.21	8.40

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	17.07.2020
Par Value of Instrument (Rs.)	N/A	100
Perpetual or Dated	Perpetual	Dated
Original Maturity Date	N/A	16.07.2025
Regulatory Treatment		
Instrument Type	Common Equity Tier 1	Tier 2 Capital
Amount recognised in Regulatory Capital (in Rs. Mn as at 31st December 2022)	3,614	410
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 WEIGHTED ASSETS

CREDIT RISK

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's specified in the directions.

Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31st December 2022	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	48,660,867	-	46,657,591	-	2,851,977	6%
Claims on Bank's Exposures	3,615,986	17,985,626	3,615,986	359,713	2,323,881	58%
Claims on Financial Institutions	2,900,227	301,178	2,900,227	1,178	2,316,021	80%
Claims on Corporates	16,998,591	4,151,119	16,063,793	1,466,082	17,529,875	100%
Retail Claims	94,231,548	12,595,288	85,667,724	1,894,818	69,136,704	79%
Claims Secured by Gold	23,799,606	-	23,799,606	-	2,214,134	9%
Claims Secured by Residential Property	2,859,531	-	2,859,531	-	1,815,538	63%
Net Stage 3 Loans (i)	6,084,764	-	6,062,091	-	6,385,279	105%
Higher-risk Categories	3,752	-	3,752	-	5,628	150%
Cash Items and Other Assets	7,582,207	-	7,582,207	-	5,522,850	73%
Total Assets	206,737,079	35,033,212	195,212,506	3,721,790	110,101,886	55%

Notes:

(i) Stage 3 Loans- As per Banking Act Direction No. 13 and 14 of 2021 (as amended subsequently) on Classification, Recognition and Measurement of Credit Facilities and Classification, Recognition and Measurement of Financial Assets other than credit facilities in LCBs

(ii) RWA Density - Total RWA/Exposures post CCF and CRM.

Substitutions of assets subject to high credit risk with low risk ones led for the drop-in risk weighted assets during year 2022.

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Post CCF & CRM)

As at 31st December 2022	Risk Weight										Total Credit Exposures
Asset Class	0%	2.0%	10%	20%	35%	50%	60%	75%	100%	150%	
	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	32,397,707	-	-	14,259,885	-	-	-	-	-	-	46,657,591
Claims on Banks Exposures	-	359,713	-	1,944,424	-	781,268	-	-	301,580	588,713	3,975,699
Claims on Financial Institutions	-	-	-	-	-	1,170,767	-	-	1,730,637	-	2,901,404
Claims on Corporates	-	-	-	266,185	-	188,256	-	-	17,075,434	-	17,529,875
Retail Claims	-	-	-	20,324	-	216,275	2,783,413	69,249,891	15,292,639	-	87,562,542
Claims Secured by Gold	12,728,938	-	-	11,070,669	-	-	-	-	-	-	23,799,606
Claims Secured by Residential Property	-	-	-	-	1,606,143	-	-	-	1,253,388	-	2,859,531
Stage 3 Loans	-	-	-	-	-	389,920	-	-	4,635,873	1,036,297	6,062,091
Higher-risk Categories	-	-	-	-	-	-	-	-	-	3,752	3,752
Cash Items and Other Assets	2,059,357	-	-	-	-	-	-	-	5,522,850	-	7,582,207
Total	47,186,001	359,713	-	27,561,487	1,606,143	2,746,487	2,783,413	69,249,891	45,812,401	1,628,762	198,934,297

Further Explanation on the Bank approach to manage credit risk can be found in:

- Graphical presentation of exposures subject to credit risk by major types, geographical areas, sectors and risk rating wise - pages 66 to 67 of Bank's Annual Report 2022 (Risk Management).
- Maximum Exposures to Credit Risk by asset class - pages 206 to 208 of Bank's Annual Report 2022.
- Industry Analysis of Financial Assets - pages 211 to 213 of Bank's Annual Report 2022.
- Break down of credit exposures classified by residual maturity - pages 226 to 227 of Bank's Annual Report 2022.
- Breakdown of exposures subject to credit risk with details on impairment allowances and write-offs - pages 168 to 170 of Bank's Annual Report 2022.

MARKET RISK

The Bank follows the 'Standardised Measurement Method' for computing the capital charge for exposures capture under market risk.

Market Risk under Standardised Measurement Method

As at 31st December 2022	RWA Amount Rs 000
(a) RWA for Interest Rate Risk	8,205
General Interest Rate Risk	8,205
(i) Net Long or Short Position	8,205
(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	145,391
Risk Weighted Amount for Market Risk ((a+b+c) * Reciprocal of Total Capital Ratio)	1,228,766

LIQUIDITY COVERAGE RATIO

The Liquidity Coverage Ratio (LCR) ensures Banks maintaining sufficient unencumbered High-Quality Liquid Assets (HQLA) to survive a significant liquidity stress scenario over 30 days horizon. The Central Bank of Sri Lanka issued Banking Act Direction No. 01 of 2015 on "Liquidity Coverage Ratio under Basel III Liquidity Standards for Licensed Commercial Banks" on 31st March 2015. 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).

Basel III Pillar 3 Disclosures

LCR Disclosure template

As at	31.12.2022		31.12.2021	
	Total Un-weighted Value Rs 000	Total Weighted Value Rs 000	Total Un-weighted Value Rs 000	Total Weighted Value Rs 000
Total Stock of High-Quality Liquid Assets (HQLA)	31,244,476	30,728,149	27,572,730	26,861,466
Total Adjusted Level 1 Assets	27,802,296	27,812,229	22,830,974	22,871,149
Level 1 Assets	27,802,296	27,802,296	22,830,974	22,830,974
Total Adjusted Level 2A Assets	3,442,180	2,925,853	4,741,756	4,030,492
Level 2A Assets	3,442,180	2,925,853	4,741,756	4,030,492
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	182,031,978	21,855,711	165,009,135	24,399,584
Deposits	147,773,183	13,487,227	124,027,943	11,211,737
Unsecured Wholesale Funding	16,107,941	8,211,419	19,665,988	13,069,058
Secured Funding Transactions	32,411	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	18,062,935	101,558	21,315,204	118,790
Additional Requirements	55,508	55,508	-	-
Total Cash Inflows	22,982,754	8,264,384	12,250,155	6,104,813
Maturing Secured Lending Transactions Backed by Collateral	2,279,299	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	16,469,587	8,264,384	11,745,203	6,012,451
Operational Deposits	4,233,868	-	504,952	-
Other Cash Inflows	-	-	-	92,362
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total net Cash Outflows over the Next 30 Calendar Days) *100		226.09%		146.83%

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. "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 of Sri Lanka 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. The standard minimum ratio requirement is 100%. CBSL has brought down the requirement to 90% in view of challenging macro-economic conditions during the year 2022, on temporary basis.

As at	31.12.2022 Rs 000	31.12.2021 Rs 000
Total Available Stable Funding	176,233,283	151,791,247
Required Stable Funding – On Balance Sheet Assets	121,944,495	119,693,682
Required Stable Funding – Off Balance Sheet Items	94,775	105,113
Total Required Stable Funding	122,039,271	119,798,796
NSFR	144.41%	126.71%

OPERATIONAL RISK

The Bank computes capital charges for operational risk based on the Basic Indicator Approach (BIA).

Operational Risk under Basic Indicator Approach

As at 31st December 2022 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%	-	8,642,440	11,908,674	9,360,192
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 (LKR'000)					
The Basic Indicator Approach					1,495,565
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach					11,964,522

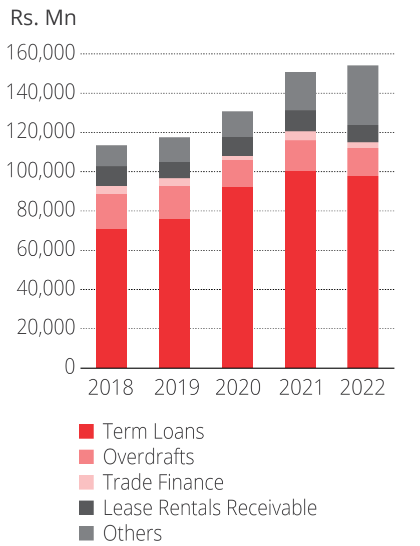
Quarterly Statistics

	2022				2021			
	31st December Rs 000	30th September Rs 000	30th June Rs 000	31st March Rs 000	31st December Rs 000	30th September Rs 000	30th June Rs 000	31st March Rs 000
Extract of Statement of Financial Position								
Total Assets	208,049,112	204,738,719	200,337,192	204,036,250	189,511,670	188,973,658	187,405,226	180,741,940
Loans and Advances	144,148,110	145,768,332	150,184,767	150,427,204	142,369,157	134,948,815	129,737,920	126,494,909
Due to Depositors	162,533,459	157,641,602	150,849,869	155,928,074	146,433,816	149,049,524	146,897,970	142,382,339
Debentures	872,839	843,904	871,896	843,275	872,839	843,904	871,896	843,275
Shareholders' Funds	20,616,548	18,986,369	18,885,608	18,769,431	18,553,508	17,455,792	16,803,968	16,189,316
Extract of Statement of Profit or Loss								
Net Interest Income	2,021,865	2,279,089	2,683,519	2,470,984	2,972,934	2,303,573	2,131,114	2,234,115
Other Income/ (Losses)	(172,268)	(23,794)	(211,240)	(441,825)	670,021	503,274	372,488	721,154
Total Operating Income	1,849,597	2,255,295	2,472,279	2,029,159	3,642,955	2,806,847	2,503,602	2,955,269
Impairment Losses	(470,172)	(830,415)	(958,249)	(601,719)	(933,655)	(567,150)	(231,798)	(637,850)
Non-Interest Expenses	(1,355,596)	(1,294,700)	(1,332,385)	(1,113,239)	(1,394,084)	(1,343,614)	(1,435,224)	(1,331,645)
Income Tax Reversal/(Expense)	1,545,250	(29,418)	(65,467)	(98,278)	(247,485)	(244,260)	(231,218)	(235,332)
Profit for the Quarter	1,569,079	100,762	116,178	215,923	1,067,731	651,823	605,362	750,442
Profitability (YTD) Ratios								
Net Interest Margin (%)	4.70	4.98	5.23	5.12	5.18	4.81	4.84	5.07
Earnings Per Share (Rs.)	4.52	0.98	0.75	0.49	6.95	4.54	3.06	1.70
Return on Equity (%)	10.58	3.08	3.58	4.65	18.03	16.13	16.95	19.27
Return on Assets (%)	1.00	0.29	0.34	0.45	1.65	1.45	1.50	1.70
Capital Adequacy Ratios								
Common Equity Tier I Capital Ratio (%)	14.09	13.44	12.98	13.00	13.82	12.36	12.59	12.83
Total Tier I Capital Ratio (%)	14.09	13.44	12.98	13.00	13.82	12.36	12.59	12.83
Total Capital Ratio (%)	16.07	15.41	14.97	15.06	15.97	14.63	15.01	15.28
Asset Quality Ratios								
Regulatory Gross NPA (%)	N/A	N/A	N/A	N/A	6.48	6.06	6.61	6.77
Regulatory Net NPA (%)	N/A	N/A	N/A	N/A	0.18	1.28	1.94	2.18
Stage 3 Loans (Net of Stage 3 Impairment) to Total Loans	3.63	3.40	3.18	2.95	3.04	3.20	N/A	N/A
Stage 3 Loan Impairment to Stage 3 Loans (Stage 3 Provision Cover)	53.11	55.26	55.42	51.49	51.23	50.99	N/A	N/A
Liquidity Ratios								
Statutory Liquid Assets Ratio (SLAR)								
Domestic Banking Unit (%)	N/A	23.50	22.75	25.09	24.18	28.76	31.00	28.96
Foreign Currency Banking Unit (%)	N/A	83.93	79.45	61.06	58.42	50.25	50.37	50.25
Bank (%)	21.60	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Liquidity Coverage Ratio (LCR)								
Rupee (%)	253.11	207.16	116.11	136.47	135.47	180.01	229.81	173.30
All Currency (%)	226.09	194.77	125.78	135.80	146.83	207.38	268.04	203.95

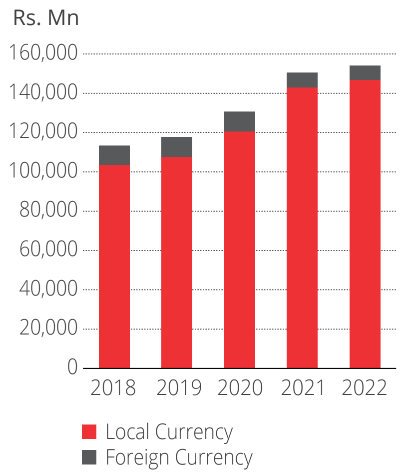
Analysis of Loans and Advances

	2022 Rs 000	2021 Rs 000	2020 Rs 000	2019 Rs 000	2018 Rs 000
By Product					
Term Loans	97,845,863	100,358,520	92,181,667	76,045,575	70,870,588
Overdrafts	14,346,626	15,611,229	13,866,114	16,787,688	17,936,818
Trade Finance	2,707,541	4,570,341	2,007,923	3,664,711	4,036,976
Lease Rentals Receivable	8,954,624	10,475,359	9,496,585	8,627,202	9,804,133
Others	30,224,655	19,668,575	13,199,489	12,378,000	10,845,909
Total	154,079,309	150,684,024	130,751,778	117,503,176	113,494,424
By Currency					
Sri Lankan Rupee	146,728,447	142,806,129	120,579,129	107,565,116	103,345,693
United States Dollar	5,268,600	4,912,500	3,789,295	3,904,780	3,917,082
Others	2,082,262	2,965,395	6,383,354	6,033,280	6,231,649
Total	154,079,309	150,684,024	130,751,778	117,503,176	113,494,424

By Product



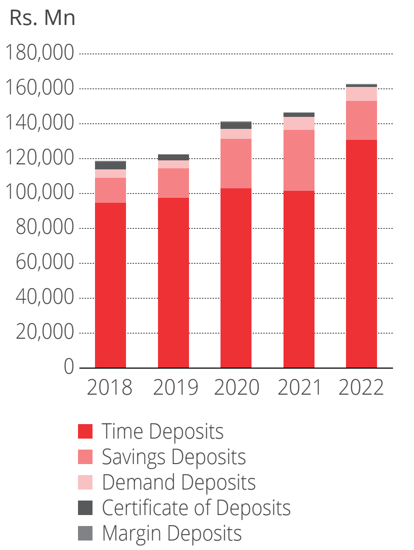
By Currency



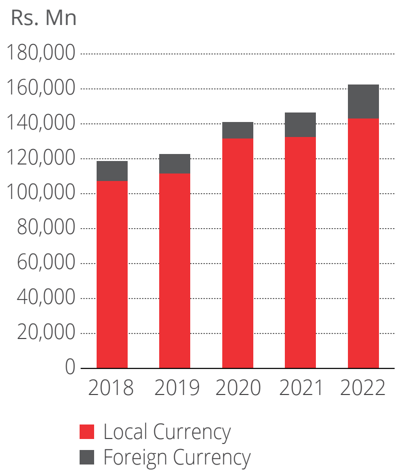
Analysis of Due to Depositors

	2022 Rs 000	2021 Rs 000	2020 Rs 000	2019 Rs 000	2018 Rs 000
By Product					
Demand Deposits	8,190,612	7,354,603	5,847,739	4,375,636	4,871,475
Savings Deposits	22,127,403	34,905,340	28,339,136	16,910,775	14,404,715
Time Deposits	130,769,723	101,519,268	102,766,776	97,528,927	94,475,049
Certificate of Deposits	1,135,753	2,408,089	3,825,672	3,521,230	4,359,723
Margin Deposits	309,968	246,516	300,384	207,456	516,387
Total	162,533,459	146,433,816	141,079,707	122,544,024	118,627,349
By Currency					
Sri Lankan Rupee	142,984,716	132,441,635	131,388,842	111,342,539	107,090,457
United States Dollar	16,045,760	10,636,528	7,789,043	8,940,128	9,369,827
Others	3,502,983	3,355,653	1,901,822	2,261,357	2,167,065
Total	162,533,459	146,433,816	141,079,707	122,544,024	118,627,349

By Product



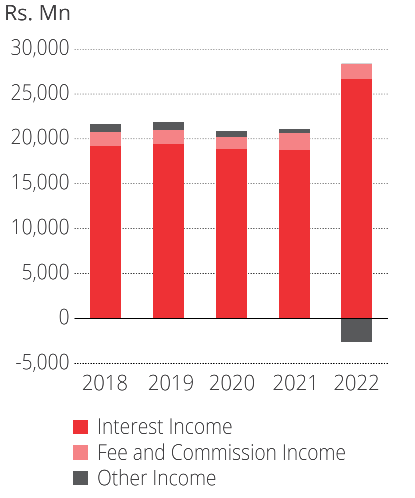
By Currency



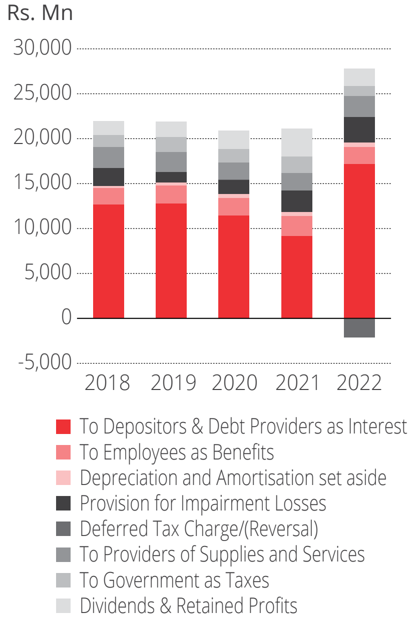
Sources & Distribution of Income

	2022 Rs 000	2021 Rs 000	2020 Rs 000	2019 Rs 000	2018 Rs 000
Sources of Income					
Interest Income	26,626,159	18,798,301	18,821,013	19,416,606	19,157,136
Fee and Commission Income	1,754,921	1,821,228	1,346,033	1,605,877	1,626,410
Trading and Other Operating Income/(Losses)	(2,567,936)	484,005	714,379	885,179	888,648
Total	25,813,144	21,103,534	20,881,425	21,907,662	21,672,194
Distribution of Income					
To Depositors and Debt Providers as Interest	17,170,702	9,156,565	11,451,264	12,782,017	12,638,841
To Employees as Benefits	1,893,676	2,227,359	1,942,765	1,973,310	1,863,074
Depreciation and Amortisation Set Aside	481,488	459,840	416,618	387,704	193,811
Provision for Impairment Losses	2,860,555	2,370,452	1,596,041	1,136,843	2,017,147
Deferred Tax Charge/(Reversal)	(2,016,452)	3,138	19,194	8,766	(260,432)
To Providers of Supplies and Services	2,284,747	1,947,024	1,925,847	2,207,426	2,343,093
To Government as Taxes	1,136,488	1,863,798	1,481,528	1,661,027	1,335,017
Income Tax (Current Tax)	664,365	955,157	770,804	554,804	628,446
VAT on Financial Services	439,565	877,577	690,035	1,088,540	690,999
Crop Insurance Levy and Social Security Contribution Levy	32,558	31,064	20,689	17,683	15,572
To Shareholders as Dividends and Retained Profits	2,001,940	3,075,358	2,048,168	1,750,569	1,541,643
Total	25,813,144	21,103,534	20,881,425	21,907,662	21,672,194

Source of Income



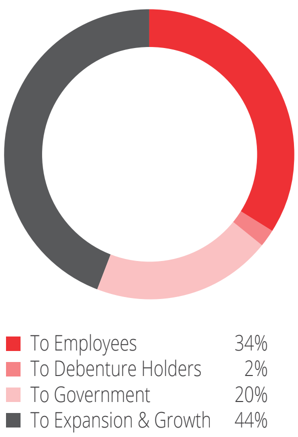
Distribution of Income



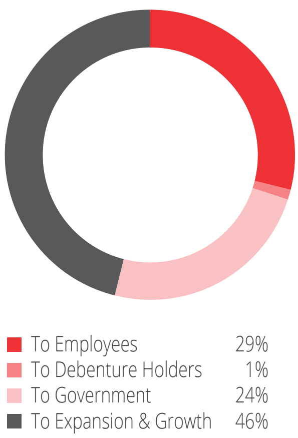
Value Added Statement

	2022 Rs 000	%	2021 Rs 000	%
Value Added				
Income from Banking Services	25,813,144		21,103,534	
Cost of Funds and Services	(19,340,649)		(10,988,788)	
Value Added by Banking Services	6,472,495		10,114,745	
Impairment Losses	(2,860,555)		(2,370,452)	
Deferred Tax Reversal/(Charge)	2,016,452		(3,138)	
Total	5,628,392		7,741,155	
Distribution of Value Added				
To Employees				
Salaries and Other Benefits	1,893,676	34%	2,227,359	29%
To Debenture Holders				
Interest to Debenture Holders	114,800	2%	114,800	1%
To Government				
Income Tax (Current Tax)	664,365		955,157	
VAT on Financial Services	439,565		877,577	
Crop Insurance Levy and Social Security Contribution Levy	32,558		31,064	
	1,136,488	20%	1,863,798	24%
To Expansion and Growth				
Retained Profits	2,001,940		3,075,358	
Depreciation and Amortisation	481,488		459,840	
	2,483,428	44%	3,535,198	46%
Total	5,628,392	100%	7,741,155	100%

Distribution of Value Added - 2022



Distribution of Value Added - 2021



Decade at a Glance

Rs. Mn

For the Year ended 31st December	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operating Results										
Gross Income	9,054.03	8,843.95	10,759.14	15,144.75	17,684.67	21,672.19	21,907.66	20,881.42	21,103.53	25,813.14
Interest Income	7,976.95	7,541.72	9,038.97	13,366.55	15,616.01	19,157.13	19,416.61	18,821.01	18,798.30	26,626.16
Interest Expense	5,881.65	4,801.74	5,076.38	8,733.16	10,909.74	12,638.84	12,782.02	11,451.26	9,156.56	17,170.70
Net Interest Income	2,095.30	2,739.98	3,962.59	4,633.39	4,706.27	6,518.29	6,634.59	7,369.75	9,641.74	9,455.46
Other Income/(Losses)	1,077.08	1,302.23	1,720.17	1,778.20	2,068.66	2,515.06	2,491.06	2,060.41	2,305.23	(813.01)
Operating Expenses	2,201.84	2,477.07	3,038.74	3,605.27	3,828.61	4,415.55	4,586.12	4,305.92	4,665.29	4,692.47
Impairment Charges	743.26	814.85	750.53	528.11	494.39	2,017.15	1,136.84	1,596.04	2,370.45	2,860.55
Taxes and Levies on Financial Services	104.53	216.08	361.87	483.27	576.48	691.00	1,088.54	690.03	877.58	439.57
Profit Before Income Tax	122.75	534.21	1,531.62	1,794.94	1,875.45	1,909.65	2,314.14	2,838.17	4,033.65	649.85
Income Tax Expense/(Reversal)	8.91	119.00	491.10	543.23	484.95	368.01	563.57	790.00	958.29	(1,352.09)
Profit for the Year	113.84	415.21	1,040.52	1,251.71	1,390.50	1,541.64	1,750.57	2,048.17	3,075.36	2,001.94
As at 31st December										
Assets										
Cash and Cash Equivalents	1,203.74	1,334.41	1,393.27	1,703.45	1,665.04	2,214.11	1,708.27	2,914.16	2,218.09	5,374.28
Balances with Central Bank of Sri Lanka	2,799.58	3,247.64	4,166.74	6,218.56	6,884.02	6,481.99	5,333.20	10,304.35	5,038.35	5,308.80
Derivative Financial Instruments	2.76	5.21	1.54	26.28	16.09	0.21	0.44	93.01	4.59	-
Financial Assets - FVPL	9,170.42	1,414.70	14.71	629.74	4,549.19	11.63	168.18	-	-	2,239.76
Loans and Advances	41,561.53	52,974.81	75,143.20	86,498.15	98,743.82	108,168.86	111,187.86	123,157.19	142,369.15	144,148.11
Other Financial Assets	6,133.26	17,532.44	24,654.44	31,918.27	23,573.77	34,074.56	30,080.09	35,798.94	34,110.58	42,198.33
Financial Assets - FVOCI	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	3.75	3.75
Property, Plant and Equipment	1,204.30	1,458.55	1,470.35	1,489.39	1,989.97	1,934.57	2,333.96	2,307.88	2,335.83	2,586.15
Right-of-Use Assets	-	-	-	-	-	-	911.84	983.37	1,377.41	1,593.99
Intangible Assets	65.80	50.61	329.13	315.70	284.39	305.08	280.85	346.70	320.86	340.05
Deferred Tax Assets	-	-	-	-	-	4.93	-	-	-	1,759.44
Other Assets	2,770.90	1,580.74	603.43	645.38	789.24	824.18	968.86	1,028.66	1,733.06	2,496.45
Total Assets	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69	154,026.28	152,979.70	176,940.41	189,511.67	208,049.11
Liabilities										
Non-deposit Financial Liabilities	4,743.51	4,294.47	14,612.56	21,001.34	10,963.69	15,039.81	12,466.68	14,399.17	17,147.04	16,985.12
Derivative Financial Instruments	24.63	-	2.14	-	7.37	0.11	0.11	79.01	0.03	56.10
Due to Depositors	53,835.90	64,895.23	77,697.05	91,456.41	107,193.03	118,627.35	122,544.02	141,079.71	146,433.82	162,533.46
Current Tax Liabilities	-	-	114.94	411.03	550.34	785.74	752.29	825.10	1,252.82	1,751.18
Deferred Tax Liabilities	150.79	281.98	391.74	445.77	630.73	-	132.78	159.83	118.40	-
Other Liabilities and Provisions	1,330.16	1,564.01	1,276.69	1,314.21	1,339.59	2,517.44	3,755.03	4,127.58	5,133.22	5,233.88
Debentures	784.69	3,834.95	7,914.58	7,950.17	7,147.05	5,809.19	-	872.84	872.84	872.84
Total Liabilities	60,869.68	74,870.64	102,009.70	122,578.93	127,831.80	142,779.64	139,650.91	161,543.24	170,958.16	187,432.57
Shareholders' Funds										
Stated Capital	1,548.97	1,548.97	1,548.97	1,548.97	3,614.25	3,614.25	3,614.25	3,614.25	3,614.25	3,614.25
Reserves	2,499.80	3,185.66	4,224.30	5,323.18	7,055.64	7,632.39	9,714.54	11,782.92	14,939.26	17,002.29
Total Shareholders' Funds	4,048.77	4,734.63	5,773.27	6,872.15	10,669.89	11,246.64	13,328.79	15,397.17	18,553.51	20,616.55
Total Liabilities and Shareholders' Funds	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69	154,026.28	152,979.70	176,940.41	189,511.67	208,049.11
Commitments and Contingencies	26,124.67	22,200.09	26,223.21	25,458.17	32,426.39	44,169.94	46,999.03	67,728.48	37,779.89	37,495.33
Share Information										
Earnings Per Share (Rs.)	0.39	1.41	3.53	4.01	3.31	3.48	3.96	4.63	6.95	4.52
Net Assets Value Per Share (Rs.)	9.15	10.70	13.05	15.53	24.11	25.41	30.12	34.79	41.92	46.58
Other Information										
No of Employees	1,169	1,302	1,420	1,458	1,472	1,497	1629	1483	1396	1,403
No of Branches	77	78	79	82	85	85	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	261
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	 262 265 262 262
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	265
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	Item 06 of the Investor Relations	265
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 22.5) Item 11 of the Investor Relations	178 265
7.6 (ix)	Number of shares representing the Entity's Stated Capital.	Notes to the Financial Statements (Note 33)	190
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	263
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	 264 264 - 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 22)	175
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	265
9.3.2.(b)	Disclosure of recurrent Related Party Transactions.	Item No. 8 of Investor Relations	265
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

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 2022 and Audited Income statement for the year ended 31st December 2022 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 2022

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	W. K. H. Wegapitiya	27,580,650	6.23
3	Seylan Bank PLC/Ambeon Holdings PLC (Collateral)	26,912,674	6.08
4	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	Sri Lanka Samurdhi Authority	11,114,376	2.51
9	Imminent Technologies (Pvt) Ltd	10,637,697	2.40
10	Sri Lanka Savings Bank Limited	10,298,499	2.33
11	D. C. C. Joseph	4,892,441	1.11
12	Commercial Bank of Ceylon PLC/Andaradeniya Estate (Pvt) Ltd	4,001,095	0.90
13	H. Beruwalage	2,046,648	0.46
14	A. U. De Silva	1,680,000	0.38
15	Peoples Leasing & Finance PLC/H. A. J. Wickramasena	1,382,311	0.32
16	DFCC Bank PLC/N. G. N. Maduranga	1,361,179	0.31
17	D. R. Ponnamperuma	1,257,682	0.28
18	D. M. I. Dissanayake	1,250,101	0.28
19	R. A. De Silva	1,200,000	0.27
20	D. T. Beruwalage	1,161,448	0.26
	Sub Total	370,309,269	83.67
	Balance held by 6,289 Shareholders	72,252,360	16.33
	Total	442,561,629	100.00

Investor Relations

As at 31st December 2021

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)	37,573,158	8.49
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	Sri Lanka Samurdhi Authority	11,114,376	2.51
9	Imminent Technologies (Pvt) Ltd	10,637,697	2.40
10	Sri Lanka Savings Bank Limited	10,298,499	2.33
11	D. C. C. Joseph	6,000,000	1.36
12	H. Beruwalage	2,046,648	0.46
13	R. A. De Silva	1,311,505	0.30
14	DFCC Bank PLC/N. G. N. Maduranga	1,269,679	0.29
15	D. M. I. Dissanayake	1,260,101	0.28
16	Commercial Bank of Ceylon PLC/Andaradeniya Estate (Pvt) Ltd	1,220,458	0.28
17	D. R. Ponnamperuma	1,200,000	0.27
18	D. T. Beruwalage	1,161,448	0.26
19	T. G. S. Wickrama	1,037,153	0.23
20	M. B. U. N. Fernando	1,020,000	0.23
	Sub Total	377,986,359	85.41
	Balance held by 6,354 Shareholders	64,575,270	14.59
	Total	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 2022 was 54.93% in the hands of 6,304 public shareholders. (31st December 2021 - 54.93% in the hands of 6,370 shareholders).

Float Adjusted Market Capitalisation as at 31st December 2022 was Rs.2,309,441,476 /- (31st December 2021 - Rs.3,768,036,093/-) and Bank complies with option No 05.

3. Distribution Schedule of the Number of Shareholders and Percentage of Shareholding

The total number of shareholders as at 31st December 2022 were 6,309 (31st December 2021 - 6,374).

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	1,304	50,297	0.01%	3	72	0.00%	1,307	50,369	0.01%
101 - 1,000	2,053	1,068,674	0.24%	7	4,050	0.00%	2,060	1,072,724	0.24%
1,001 - 5,000	1,460	3,953,474	0.89%	7	21,000	0.00%	1,467	3,974,474	0.89%
5,001 - 10,000	533	4,114,683	0.93%	5	44,332	0.01%	538	4,159,015	0.94%
10,001 - 50,000	636	14,598,938	3.30%	8	226,310	0.05%	644	14,825,248	3.35%
50,001 - 100,000	143	10,636,024	2.40%	3	222,650	0.05%	146	10,858,674	2.45%
100,001 - 500,000	104	21,392,669	4.84%	4	647,846	0.15%	108	22,040,515	4.99%
500,001 - 1,000,000	13	9,185,796	2.08%	2	1,892,935	0.43%	15	11,078,731	2.51%
1,000,001 and above	22	286,199,639	64.67%	2	88,302,240	19.95%	24	374,501,879	84.62%
Total	6,268	351,200,194	79.36%	41	91,361,435	20.64%	6,309	442,561,629	100.00%

Analysis 1.1

Range of Shareholding	2022			2021		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Resident Shareholders	6,268	351,200,194	79.36%	6,334	353,421,096	79.86%
Non-Resident Shareholders	41	91,361,435	20.64%	40	89,140,533	20.14%
Total	6,309	442,561,629	100.00%	6,374	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	1,289	49,496	0.01%	18	873	0.00%	1,307	50,369	0.01%
101 - 1,000	2,020	1,051,718	0.24%	40	21,006	0.00%	2,060	1,072,724	0.24%
1,001 - 5,000	1,430	3,845,823	0.87%	37	128,651	0.03%	1,467	3,974,474	0.90%
5,001 - 10,000	489	3,744,393	0.85%	49	414,622	0.09%	538	4,159,015	0.94%
10,001 - 50,000	576	13,073,944	2.95%	68	1,751,304	0.39%	644	14,825,248	3.34%
50,001 - 100,000	116	8,611,876	1.95%	30	2,246,798	0.51%	146	10,858,674	2.46%
100,001 - 500,000	73	14,468,613	3.27%	35	7,571,902	1.71%	108	22,040,515	4.98%
500,001 - 1,000,000	6	4,190,646	0.95%	9	6,888,085	1.56%	15	11,078,731	2.51%
1,000,001 and above	14	240,326,345	54.30%	10	134,175,534	30.32%	24	374,501,879	84.62%
Total	6,013	289,362,854	65.39%	296	153,198,775	34.61%	6,309	442,561,629	100.00%

Analysis 2.1

Range of Shareholding	2022			2021		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Individual Shareholders	6,013	289,362,854	65.39%	6,087	288,046,717	65.09%
Institutional Shareholders	296	153,198,775	34.61%	287	154,514,912	34.91%
Total	6,309	442,561,629	100.00%	6,374	442,561,629	100.00%

4. Information on Ratios and Market Prices

i) Ratios

Year	2022	2021
Dividend Per Share (Rs.)	Nil	Nil
Dividend Payout (%)	0%	0%
Net Asset Value per Share (Rs.)	46.58	41.92
Debt to Equity (Times)	0.81	0.75
Interest Cover (Times)	1.53	5.46
Statutory Liquid Asset Ratio (%)		
Total Bank	21.60	N/A
Domestic Banking Unit	N/A	24.18
Foreign Currency Banking Unit	N/A	58.42
Liquidity Coverage Ratio (%)		
Rupee	253.11	135.47
All Currency	226.09	146.83

ii) Market Price - Ordinary Shares

Year	2022 Rs.	2021 Rs.
Highest	18.40	22.50
Lowest	7.90	13.00
Year-End	9.50	15.50

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 38 to the Financial Statements, Future Outlook in page 36 and Risk Management Report on pages 64 to 72.

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 2022. 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 (2021-Nil).

10. Market Capitalisation

Market Capitalisation as at 31st December 2022 - Rs. 4,204,335,475/- (31st December 2021 - Rs. 6,859,705,249/-).

11. Number of Buildings Owned by the Bank

The Bank owns two buildings as at 31st December 2022 the details of which are disclosed in Note 22.5 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 funding 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.

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.

Expected Credit Loss (ECL)
Expected Credit Loss (ECL) is the probability weighted estimate of credit losses over the expected life of a Financial Instrument.

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.

Glossary of Financial & Banking Terms

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.

Individually Impaired Asset Cover
Impaired Assets Cover is the ratio of Individual 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 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.

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.

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 (Stage 3) and Advances expressed as a percentage of regulatory capital base.

P

Price to Book Value
Shows a comparison of Bank's market price to Net Assets value per ordinary share.

Past Due
A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Price Earnings Ratio
The current market price of a share divided by the earnings per share.

Projected Unit Credit Method
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Probability of Default (PD)
PD is an estimate of the likelihood of default over a given time horizon.

Prudence
Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Purchased on Credit Impaired Financial Assets (POCI)
POCI assets are financial assets that are credit impaired on the initial recognition.

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.

Glossary of Financial & Banking Terms

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)
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.

Stage 3 Loans (Impaired Loans) to Total Loans Ratio
This ratio shows impaired Loan & Advances (Stage 3), net of Stage 3 impairment provisions, as a percentage of total on balance sheet credit facilities and their respective undrawn amounts.

Stage 3 Provision Cover
Stage 3 provision cover is calculated by dividing Loans & Advances impairment (Stage 3) by stage 3 Loans & Advances.

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, 100% of impairment for assets in stage 1 and 50% of impairment for assets in assets in stage 2, subject to a maximum of 1.25% of Risk Weighted Assets for Credit Risk 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.

Total Impairment Provision Cover Ratio
Total Impairment Cover depicts total impairment provision of Loans and Advances as a percentage of Total Gross Loans and Advances.

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 EIGHTH 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 2023 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 2022 with the Report of the Auditors thereon.

2. To re-elect, B D A Perera, 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, Sandra Walgama, 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 re-elect, Hiroyuki Ota, in terms of Article 89 of the Articles of Association as a Director.

5. To authorise the Directors to determine donations for the year 2023.

6. To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.

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.

By Order of the Board

N Fernando

Nayantha Fernando
Company Secretary

17th February 2023

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.	S B Rangamuwa	of Colombo or failing him
	Aravinda Perera	of Colombo or failing him
	Nihal Kekulawala	of Colombo or failing him
	B D A Perera	of Colombo or failing him
	Sandra Walgama	of Colombo or failing her
	Chethiya Umagiliya	of Colombo or failing him
	Hiroyuki Ota	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 Eighth Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 31st March 2023 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 2022 with the Report of the Auditors thereon.		
2.	Resolution No. 2 To re-elect B D A Perera, 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 Sandra Walgama, 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 re-elect, Hiroyuki Ota, in terms of Article 89 of the Articles of Association as a Director.		
5.	Resolution No. 5 To authorise the Directors to determine the donations for the year 2023.		
6.	Resolution No. 6 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 Three.

....
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, 2023 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

S B Rangamuwa - Chairman
Aravinda Perera - Deputy Chairman
Nihal Kekulawala - Senior Director
B D A Perera - Director
Sandra Walgama - Director
Chethiya Umagiliya - Director
Hiroyuki Ota - Director
Nimal Tillekeratne - Managing Director/CEO

Company Secretary

Nayantha Fernando

Mandatory Board Committees

Board Audit Committee

Nihal Kekulawala - Chairman
B D A Perera - Director
Sandra Walgama - Director
Nimal Tillekeratne - Managing Director/CEO
(By invitation)

Board Integrated Risk Management Committee

Nihal Kekulawala - Chairman
S B Rangamuwa - Director
Sandra Walgama - Director
Nimal Tillekeratne - Managing Director/CEO

Board Human Resources & Remuneration Committee

S B Rangamuwa - Chairman
Aravinda Perera - Director
Nihal Kekulawala - Director
Nimal Tillekeratne - Managing Director/CEO

Board Nomination Committee

B D A Perera - Chairman
Aravinda Perera - Director
Chethiya Umagiliya - Director
Nimal Tillekeratne - Managing Director/CEO
(By invitation)

Board Related Party Transaction Review Committee

Nihal Kekulawala - Chairman
S B Rangamuwa - Director
Hiroyuki Ota - Director
Nimal Tillekeratne - Managing Director/CEO

Voluntary Board Committees

Board Credit Committee

S B Rangamuwa - Chairman
Aravinda Perera - Director
Sandra Walgama - Director
Chethiya Umagiliya - Director
Nimal Tillekeratne - Managing Director/CEO

Board Strategic Planning Committee

Aravinda Perera - Chairman
S B Rangamuwa - Director
Nihal Kekulawala - Director
Chethiya Umagiliya - Director
Nimal Tillekeratne - Managing Director/CEO
(By invitation)

Board Recoveries Committee

S B Rangamuwa - Chairman
Aravinda Perera - Director
B D A Perera - Director
Sandra Walgama - Director
Nimal Tillekeratne - Managing Director/CEO

Board IT Steering Committee

Aravinda Perera - Chairman
S B Rangamuwa - Director
B D A Perera - Director
Nimal Tillekeratne - Managing 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) (rating watch negative)

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PAN ASIA BANK
The Truly Sri Lankan Bank